



百信集團

PASHUN GROUP

Pa Shun International Holdings Limited

百信國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 574

2024

ANNUAL REPORT

CONTENTS

	Page
CORPORATE INFORMATION	2
FINANCIAL SUMMARY	4
MANAGEMENT DISCUSSION AND ANALYSIS	5
CORPORATE GOVERNANCE REPORT	9
DIRECTORS AND SENIOR MANAGEMENT	25
REPORT OF DIRECTORS	28
INDEPENDENT AUDITOR'S REPORT	47
CONSOLIDATED STATEMENT OF PROFIT OR LOSS	52
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	53
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	54
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	56
CONSOLIDATED STATEMENT OF CASH FLOWS	57
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	59

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Yuan Hongbing (*Chairman*)
Mr. Ma Qinghai (*Chief Executive Officer*)
(appointed on 2 April 2024)
Professor Xiao Kai (*Chairman*)
(retired on 22 February 2024)
Mr. Feng Junzheng (*Chief Executive Officer*)
(retired on 22 February 2024)

NON-EXECUTIVE DIRECTORS

Mr. Chen Zhongzheng
(appointed on 2 April 2024)
Mr. Zhou Jinkai
(appointed on 2 April 2024)
Mr. Zhang Tong (retired on 22 February 2024)
Mr. Chen Yunwei (retired on 22 February 2024)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Li Yan
Mr. Khor Khie Liem Alex
Dr. Lowe Chun Yip
(appointed on 20 May 2024)
Mr. Wong Tung Yuen
(appointed on 20 May 2024)
Mr. Cao Lei (retired on 22 February 2024)

AUTHORISED REPRESENTATIVES

Mr. Yuan Hongbing
Ms. Li Yan

COMPANY SECRETARY

Ms. Lui Mei Ka
(appointed on 15 July 2024)
Ms. Lam Yuen Ling Eva
(resigned on 15 July 2024)

AUDIT COMMITTEE

Ms. Li Yan (*Chairman*)
Mr. Khor Khie Liem Alex
Dr. Lowe Chun Yip
(appointed on 20 May 2024)
Mr. Cao Lei (retired on 22 February 2024)

REMUNERATION COMMITTEE

Ms. Li Yan (*Chairman*)
Mr. Khor Khie Liem Alex
Dr. Lowe Chun Yip
(appointed on 20 May 2024)
Mr. Cao Lei (retired on 22 February 2024)

NOMINATION COMMITTEE

Mr. Khor Khie Liem Alex (*Chairman*)
Ms. Li Yan
Mr. Wong Tung Yuen
(appointed on 20 May 2024)
Mr. Chen Yunwei
(retired on 22 February 2024)

CORPORATE GOVERNANCE COMMITTEE

Ms. Li Yan
Mr. Khor Khie Liem Alex
Mr. Wong Tung Yuen
(appointed on 20 May 2024)
Mr. Cao Lei (retired on 22 February 2024)

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suites 2601–2603, 26/F
Shui On Centre
6–8 Harbour Road
Wanchai
Hong Kong

CORPORATE INFORMATION

PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 608–616, Building 28
Longfor North Paradise Walk 2
229 Wufuqiao East Road
Jinniu District
Chengdu, Sichuan Province
PRC

AUDITORS

Forvis Mazars CPA Limited (appointed on 9 December 2024)
CCTH CPA Limited (resigned on 9 December 2024)

STOCK CODE

00574

COMPANY'S WEBSITE

www.pashun.com.cn

PRINCIPAL BANK

Bank of Communications Co., Ltd.

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

FINANCIAL SUMMARY

	2020 RMB'000	2021 RMB'000	2022 RMB'000	2023 RMB'000	2024 RMB'000
Revenue	<u>474,835</u>	<u>85,913</u>	<u>71,784</u>	<u>129,430</u>	86,554
(Loss) Profit before tax	(425,761)	(323,417)	(43,159)	3,408	(15,006)
Income tax expense	<u>6,572</u>	<u>(6,984)</u>	<u>(220)</u>	<u>(1,058)</u>	(307)
(Loss) Profit for the year	<u>(419,189)</u>	<u>(330,401)</u>	<u>(43,379)</u>	<u>2,350</u>	(15,313)
(Loss) Profit per share (RMB cent(s))					
Basic	(28.37)	(22.40)	(2.94)	0.16	(1.04)
Diluted	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>0.16</u>	(1.04)
Assets and liabilities					
Non-current assets	305,093	115,468	94,869	82,295	74,787
Current assets	198,092	51,756	41,216	124,271	104,859
Current liabilities	<u>(200,259)</u>	<u>(200,582)</u>	<u>(227,219)</u>	<u>(247,744)</u>	(103,528)
Net current (liabilities) assets	(2,167)	(148,826)	(186,003)	(123,473)	1,331
Total assets less current liabilities	302,926	(33,358)	(91,134)	(41,178)	76,118
Non-current liabilities	<u>(24,944)</u>	<u>(25,144)</u>	<u>(24,386)</u>	<u>(74,921)</u>	(212,154)
Net assets (liabilities)	<u>277,982</u>	<u>(58,502)</u>	<u>(115,520)</u>	<u>(116,099)</u>	(136,036)
Capital and reserves					
Share capital	1,216	1,216	1,216	1,216	1,216
Reserves	<u>276,760</u>	<u>(59,718)</u>	<u>(116,736)</u>	<u>(117,315)</u>	(137,252)
Total equity (deficit)	<u>277,982</u>	<u>(58,502)</u>	<u>(115,520)</u>	<u>(116,099)</u>	(136,036)

MANAGEMENT DISCUSSION AND ANALYSIS

The Group continued to focus on the pharmaceutical distribution and pharmaceutical manufacturing businesses in the PRC during the year ended 31 December 2024 ("FY2024").

REVENUE

For the FY2024, the Group recorded a total revenue of approximately RMB86.6 million, representing a decrease of approximately 33.1% from approximately RMB129.4 million for the year ended 31 December 2023 ("FY2023"). Such decrease was primarily due to competitive wholesale and consumer market of pharmaceutical products during the FY2024 under slowdown economy in the PRC.

COST OF GOODS SOLD, GROSS PROFIT AND GROSS PROFIT MARGIN

The Group's cost of goods sold decreased by approximately 30.6% from approximately RMB100.1 million for the FY2023 to approximately RMB69.5 million for the FY2024. Such decrease of cost of goods sold was generally in line with the decrease in revenue during the FY2024.

The Group's gross profit decreased by approximately 41.6% from approximately RMB29.3 million for the FY2023 to approximately RMB17.1 million for the FY2024. The Group's gross profit margin decreased from approximately 22.6% for the FY2023 to approximately 19.7% for the FY2024. Such slight decrease in profit margin is primarily attributable to lower margin under more competition.

GAIN ON RESTRUCTURING OF THE FINANCIAL LIABILITIES

A gain of restructuring of the financial liabilities was recognised during the FY2024 arising from the event in which the unsecured and non-referential claims payable to creditors were discharged and released in full in exchange for repayment obligations under the Scheme of Arrangement, which carry zero-coupon interest rate, effective on 12 March 2024.

SELLING AND DISTRIBUTION EXPENSES

The Group's selling and distribution expenses increased by approximately 11.1% from approximately RMB7.2 million for the FY2023 to approximately RMB8.0 million for the FY2024. The increase was attributable to the more selling activities and promotions could be done during the FY2024 after the epidemic was under control in early 2023.

ADMINISTRATIVE AND OTHER OPERATING EXPENSES

The Group's administrative and other operating expenses decreased by approximately 38.6% from approximately RMB23.6 million for the FY2023 to approximately RMB14.5 million for the FY2024. The significant decrease was due to that significant legal and professional fees were incurred for handling debt restructuring and trading resumption of the Company during the FY2023.

OTHER INCOME, NET

Other income, net decreased to approximately RMB1.5 million for the FY2024 (FY2023: approximately RMB2.8 million) mainly due to waiver of corporate bond payables of approximately RMB0.9 million upon settlement of certain corporate bonds with discounted principal amount during the FY2023, while no such waiver were recorded in 2024.

MANAGEMENT DISCUSSION AND ANALYSIS

LOSS ALLOWANCE FOR EXPECTED CREDIT LOSS (“ECL”) AND IMPAIRMENT LOSS

- (i) The management of the Group conducted impairment assessment of the property development project (the “Project”) using the residual method by reference to its estimated market value at 31 December 2024 and 2023 as valued by an independent professional valuer. With reference to the results of valuation, an impairment loss on the Project amounted to approximately RMB4.5 million (FY2023: approximately RMB9.0 million) was recognised for the FY2024.
- (ii) The management of the Group conducted impairment assessment on the recoverability of prepayment and deposit paid by considering historical settlement records, past experience and also quantitative and qualitative information that is reasonable and supportive forward-looking information. In the view of the management of the Group, the recoverability of the advance payments made to certain suppliers cannot be assured beyond reasonable doubt, accordingly impairment loss amounted to approximately RMB8.1 million (FY2023: reversal of impairment loss amounted to approximately RMB1.2 million) was recognised for the FY2024.
- (iii) The management of the Group conducted assessment on the loss allowance for ECL on trade and other receivables by taking into consideration the current and forward-looking information, to adjust the expected loss rates at 31 December 2024 and 2023. Reversal of loss allowance for ECL on trade receivables amounted to approximately RMB3.8 million (2023: approximately RMB20.2 million) and provision for loss allowance for ECL on other receivables amounted to approximately RMB5.0 million (2023: reversal of loss allowance for ECL amounted to RMB2.7 million) were recognised for the FY2024.

FINANCE COSTS

Finance costs increased to approximately RMB14.8 million for the FY2024 (FY2023: approximately RMB12.9 million). Finance costs of the Group mainly comprises interests accrued on the corporate bonds payables and bank and other borrowings of the Group. The increase in finance cost was due to the imputed interests arising from the repayment obligations under the Scheme of Arrangement during the FY2024.

(LOSS) PROFIT FOR THE YEAR

As a result of the foregoing, the Group’s loss for the FY2024 was approximately RMB15.3 million as compared to a profit of approximately RMB2.4 million for the FY2023.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK

With the epidemic becoming under control and relaxation of restriction measures in 2023, business and economic activities in the PRC have gradually returned to normal. During the FY2024, the economy of the PRC entered into new phase with slowdown and steady development. Accordingly, the Company expects that the wholesale and consumer market of pharmaceutical products would become more competitive and challenging. The management of the Group will focus its efforts on improving the production and distribution capabilities to seize the business opportunities arising from the market recovery.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

The Group had total cash and cash equivalents of approximately RMB16.0 million at 31 December 2024 as compared to approximately RMB16.5 million at 31 December 2023.

The Group recorded net current assets of approximately RMB1.3 million at 31 December 2024 and net current liabilities of approximately RMB124.0 million at 31 December 2023. The current ratio of the Group, calculated by dividing the current assets by the current liabilities, was 1.01 at 31 December 2024, as compared with 0.50 at 31 December 2023.

At 31 December 2024, the total amount of bank borrowing was approximately RMB11.4 million, as compared to approximately RMB7.2 million as at 31 December 2023. At 31 December 2024, the total amount of other borrowings was approximately RMB32.6 million as compared to approximately RMB75.3 million at 31 December 2023.

At 31 December 2024, the total number of issued ordinary shares of the Company ("Shares") was 1,474,992,908 Shares (2023: 1,474,992,908 Shares). In 2018, the Company has granted to certain eligible persons share options ("Options") to subscribe for an aggregate of 100,000,000 Shares under the share option scheme adopted by the Company by ordinary resolution of all shareholders of the Company passed on 26 May 2015. At 31 December 2024, 100,000,000 Options remained outstanding. Please refer to the announcement of the Company dated 7 September 2018 for details of the grant of the Options. No Options were granted during the FY2024 and FY2023.

The Group actively and regularly reviews and manages its capital structure to enhance its financial strength for the Group's long-term development. There were no changes in the Group's approach to capital management during the FY2024.

MANAGEMENT DISCUSSION AND ANALYSIS

CONTINGENT LIABILITIES

At 31 December 2024, except for disclosed in note 13(c) to the consolidated financial statements in this announcement, the Group did not have any significant contingent liabilities.

FOREIGN EXCHANGE RISKS

Most of the assets and transactions of the Group are denominated in Renminbi, and the Group mainly settles its operating expenses in the PRC with income generated from operations in Renminbi. Therefore, the Group is not exposed to any significant foreign exchange risks.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

During the FY2024, the Group did not make any significant investments, acquisitions or disposals that was required to be disclosed under the Listing Rules.

PLEDGED ASSETS

At 31 December 2024, the Group's leasehold land and buildings with aggregate net carrying amount of approximately RMB26.5 million (2023: approximately RMB28.9 million) were pledged to secure bank borrowings.

HUMAN RESOURCES

At 31 December 2024, the Group had a total of 97 (31 December 2023: 90) staff, primarily in the PRC. The total staff cost was approximately RMB8.6 million (2023: approximately RMB8.2 million) for the FY2024.

The Group believes its human resources are its valuable assets and maintains its firm commitment to attracting, developing and retaining talented employees, in addition to providing dynamic career opportunities and cultivating a favorable working environment. The Group constantly invests in training across diverse operational functions and offers competitive remuneration packages and incentives to all employees. The Group regularly reviews its human resources policies for addressing its corporate development needs.

DIVIDEND

The Board does not recommend the payment of any final dividend for the FY2024 (FY2023: Nil).

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE CODE

The Group has committed to achieving high corporate governance standards in order to safeguard the interests of shareholders and enhance corporate value and accountability of the Company. The Company has adopted the code provisions as set out in the Corporate Governance Code (the “CG Code”) in Appendix C1 to the Listing Rules which was effective during the year as its own code of corporate governance. Save as disclosed below, during the year ended 31 December 2024, the Company has complied with the code provisions set out in the CG Code.

Under the code provision C.1.8 of the CG Code, an issuer should arrange appropriate insurance cover in respect of legal action against its directors. Upon the expiry of previous directors and officers liability insurance on 6 December 2024, the Company did not arrange any new insurance cover in respect of potential legal actions against its Directors until the date of this report. The management of the Group believe that all potential claims and legal actions against the Directors can be handled effectively, and the possibility of actual lawsuits against the Directors is remote.

Pursuant to Rule 3.10(1) of the Listing Rules, every board of directors of a listed issuer must include at least three independent non-executive directors.

Pursuant to Rule 3.21 of the Listing Rules, the audit committee must comprise a minimum of three members, at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules.

Pursuant to Rule 3.25 of the Listing Rules, an issuer must establish a remuneration committee chaired by an independent non-executive director and comprising a majority of independent non-executive directors. Pursuant to the terms of reference of the Remuneration Committee, the Remuneration Committee shall consist of not less than three members.

Pursuant to Rule 3.27A of the Listing Rules, an issuer must establish a nomination committee which is chaired by the chairman of the board or an independent non-executive director and comprising a majority of independent non-executive directors. Pursuant to the terms of reference of the Nomination Committee, the Nomination Committee shall consist of not less than three members.

During the annual general meeting of the Company held on 22 February 2024, (i) Professor Xiao Kai retired as an executive Director and also ceased to be the chairman of the Board; (ii) Mr. Feng Junzheng retired as an executive Director; (iii) Mr. Zhang Tong retired as a non-executive Director; (iv) Mr. Chen Yunwei retired as a non-executive Director and also ceased to be a member of the Nomination Committee; and (v) Mr. Cao Lei retired as an independent non-executive Director and also ceased to be the chairman of the Remuneration Committee and a member of each of the Audit Committee and the Corporate Governance Committee. Ms. Li Yan was appointed as the chairman of the Remuneration Committee with effect from 22 February 2024.

Following the retirement of the aforesaid Directors, the Company had only two independent non-executive Directors, only two members in each of the Audit Committee, the Nomination Committee and the Remuneration Committee. This falls below the minimum number of independent non-executive directors under Rule 3.10(1) of the Listing Rules, the minimum number of members of audit committee requirement under Rule 3.21 of the Listing Rules and the minimum number of members of the Remuneration Committee and the Nomination Committee under the respective terms of reference.

On 20 May 2024, Dr. Lowe Chun Yip (“Dr. Lowe”) was appointed as an independent non-executive Director and a member of each of the Audit Committee and the Remuneration Committee and Mr. Wong Tung Yuen (“Mr. Wong”) was appointed as an independent non-executive Director and a member of each of the Nomination Committee and the CG Committee.

CORPORATE GOVERNANCE REPORT

Upon the appointments of Dr. Lowe and Mr. Wong, the Company has fulfilled the requirements under the Listing Rules regarding the composition of the Board, the Audit Committee, the Remuneration Committee and the Nomination Committee and the independent non-executive Directors.

The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

BOARD OF DIRECTORS

The Board sets the Group's overall objectives and strategies, monitors and evaluates its operating and financial performance and reviews the corporate governance standard of the Group. It also decides on important matters such as review and approval of annual and interim results, significant transactions, director appointments or re-appointments, investment policy, dividend and accounting policies. The Board has delegated the authority and responsibility for implementing its business strategies and managing the daily operations of the Group's businesses to the executive Directors and members of senior management. The functions and power that are so delegated are reviewed periodically to ensure that they remain appropriate.

The Board is also responsible for formulating, reviewing and monitoring the policies and practices on corporate governance and legal and regulatory compliance of the Group, and the training and continuous professional development of Directors and senior management. The Board also reviews the disclosures in the corporate governance report to ensure compliance with the applicable Listing Rules.

All Board members have separate and independent access to the Group's senior management to fulfill their duties. Independent professional advice can be sought to assist the relevant Directors to discharge their duties at the Group's expenses upon their request. The Board considered that the above mechanisms, which are reviewed by the Board on an annual basis, have been implemented and was effective to ensure that independent views and input are available to the Board during the year ended 31 December 2024.

All Directors are required to declare to the Board upon their first appointment, the directorships or other positions they are concurrently holding in other companies or organisations. These interests are updated on an annual basis and when necessary.

None of the members of the Board is related to each other.

DIRECTORS' CONTINUOUS TRAINING AND PROFESSIONAL DEVELOPMENT

All Directors are aware of their responsibilities to the Shareholders and have exercised their duties with care, skill and diligence, in pursuit of the development of the Group. Each newly appointed Director is given necessary induction and information to ensure that he has a proper understanding of the Company's operations and businesses as well as his responsibilities under the relevant laws and regulations.

All Directors are also encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. Briefings and updates on the latest development in the Listing Rules and other applicable legal and regulatory requirements are provided to each of the Directors to ensure compliance and enhance their awareness of good corporate governance practices. The participations by each of the Directors in the continuous professional development are recorded.

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

On 2 April 2024, Mr. Yuan Hongbing was appointed as the chairman of the Company and Mr. Ma Qinghai was appointed as the chief executive officer of the Company.

As at 31 December 2023, Professor Xiao Kai was the chairman of the Company and Mr. Feng Junzheng has been the chief executive officer of the Company. Following the retirement of Professor Xiao Kai and Mr. Feng Junzheng as executive Directors at the annual general meeting of the Company held on 22 February 2024, the Company did not have a chairman nor a chief executive officer until 2 April 2024.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The role of the independent non-executive Directors is to provide independent and objective views and opinions to the Board and give adequate control and balances for the Group to protect the overall interests of the Shareholders and the Group. They serve actively on the Board and its committees to provide their independent and objective views.

Each independent non-executive Director has submitted annual confirmation of his independence to the Company pursuant to Rule 3.13 of the Listing Rules. Based on such confirmations, the Company considers that all of the independent non-executive Directors are independent.

ATTENDANCE RECORDS OF DIRECTORS

Details of Directors' attendance at the annual general meeting ("AGM"), Board and board committee meetings in the year 2024 are set out in the following table.

	Board	Audit Committee	Number of meetings attended/held Remuneration Committee	Nomination Committee	CG Committee	AGM
Executive Directors						
Mr. Yuan Hongbing	9/9	-	-	-	-	2/2
Mr. Ma Qinghai (appointed on 2 April 2024)	4/4	-	-	-	-	1/1
Professor Xiao Kai (retired on 22 February 2024)	2/2	-	-	-	-	-
Mr. Feng Junzheng (retired on 22 February 2024)	2/2	-	-	-	-	-
Non-executive Directors						
Mr. Chen Zhongzheng (appointed on 2 April 2024)	4/4	-	-	-	-	1/1
Mr. Zhou Jinkai (appointed on 2 April 2024)	4/4	-	-	-	-	1/1
Mr. Zhang Tong (retired on 22 February 2024)	0/2	-	-	-	-	-
Mr. Chen Yunwei (retired on 22 February 2024)	0/2	-	-	-	-	-
Independent non-executive Directors						
Ms. Li Yan	9/9	3/3	1/1	3/3	1/1	2/2
Mr. Khor Khie Liem Alex	9/9	3/3	1/1	3/3	1/1	2/2
Dr. Lowe Chun Yip (appointed on 20 May 2024)	3/3	2/2	-	-	-	1/1
Mr. Wong Tung Yuen (appointed on 20 May 2024)	3/3	2/2	-	-	-	1/1
Mr. Cao Lei (retired on 22 February 2024)	2/2	-	-	-	-	-

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

The Board is supported by four committees, namely, the Audit Committee, the Nomination Committee, the Remuneration Committee and the CG Committee. Each Board committee has its defined and written terms of reference approved by the Board setting out its duties, powers and functions. Their terms of reference are available on the Company's website.

All Board committees are provided with sufficient resources to discharge their duties, including access to management or professional advice if considered necessary.

Audit Committee

The members of the Audit Committee during the year ended 31 December 2024 and up to the date of this report are as follows:

Ms. Li Yan
Mr. Khor Khie Liem Alex
Dr. Lowe Chun Yip (appointed on 20 May 2024)
Mr. Cao Lei (retired on 22 February 2024)

Ms. Li Yan has been the chairman of the Audit Committee with effect from 10 March 2023.

The primary functions of the Audit Committee are to assist the Board in providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems, oversee the audit process and perform other duties and responsibilities as assigned by the Board. These include reviewing the interim and annual results and reports of the Company.

During the year ended 31 December 2024, the Audit Committee held three meetings and reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2023, and the effectiveness of the internal control system of the Group, including the report prepared by the external consultant.

Remuneration Committee

The members of the Remuneration Committee during the year ended 31 December 2024 and up to the date of this report are as follows:

Ms. Li Yan
Mr. Khor Khie Liem Alex
Dr. Lowe Chun Yip (appointed on 20 May 2024)
Mr. Cao Lei (retired on 22 February 2024)

Ms. Li Yan was appointed as chairman of the Remuneration Committee with effect from 10 March 2023.

CORPORATE GOVERNANCE REPORT

The primary functions of the Remuneration Committee are to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objects and, adopting the approach under Code provision E.1.2(c)(ii), make recommendations to the Board on the remuneration package of individual executive Director and senior management, the remuneration of non-executive Directors and on the establishment of a formal and transparent process for developing such remuneration policy. No executive Director takes part in any discussion on his own remuneration. The Company's objective for its remuneration policy is to maintain fair and competitive packages based on business requirements and industry practice. In order to determine the level of remuneration and fees to be paid to members of the Board, prevailing market rates and other factors such as each Director's workload, performance, responsibilities, job complexity and the Group's performance are taken into account. The Remuneration Committee is also responsible for reviewing the share schemes of the Company.

During the year ended 31 December 2024, the Remuneration Committee held one meeting and reviewed the remuneration policy and structure and the existing terms of remuneration relating to the Directors and senior management of the Company and the terms of the share option scheme of the Company.

The remuneration of the members of the senior management of the Group by bands for the year ended 31 December 2024 is set out below:

Remuneration bands	Number of persons
Nil to HK\$1,000,000	2

Further particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix D2 to the Listing Rules are set out in notes 11 and 12 to the consolidated financial statements.

Nomination Committee

The members of the Nomination Committee during the year ended 31 December 2024 and up to the date of this report are as follows:

Mr. Khor Khie Liem Alex
Ms. Li Yan
Mr. Wong Tung Yuen (appointed on 20 May 2024)

Mr. Khor Khie Liem Alex has been the chairman of the Nomination Committee with effect from 28 March 2023.

CORPORATE GOVERNANCE REPORT

The primary functions of the Nomination Committee are to review the composition of the Board, including its structure, size and diversity at least annually to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Group. It is also responsible for considering and making recommendations to the Board suitably qualified persons to become a member of the Board, monitor the succession planning for Directors and assess the independence of independent non-executive Directors. The Nomination Committee will also give consideration to the Board Diversity Policy (as defined below) when identifying suitably qualified candidates to become members of the Board, and the Board will review the Board Diversity Policy, so as to develop and review measurable objectives for the implementation of the Board Diversity Policy and to monitor the progress on achieving these objectives.

During the year ended 31 December 2024, the Nomination Committee held three meetings and reviewed the structure, size and composition of the Board, and assessed Board Diversity Policy, nomination policy and independence of the independent non-executive Directors.

Nomination Policy

The Board has delegated its responsibilities and authority for selection and appointment of directors of the Company to the Nomination Committee. Notwithstanding the aforesaid, the ultimate responsibility for selection and appointment of Directors rests with the entire Board.

The Nomination Committee and/or the Board should, upon receipt of the proposal on appointment of new director and the biographical information (or relevant details) of the candidate, evaluate such candidate based on various criteria to determine whether such candidate is qualified for directorship. Those criteria include but not limited to, character and integrity, professional qualifications, skills, knowledge and experiences, potential contributions the candidate can bring to the Board, willingness and ability to devote adequate time to discharge duties as a member of the Board, and such other perspectives that are appropriate to the Company's business and succession plan. The Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship, as applicable.

CG Committee

The members of the CG Committee during the year ended 31 December 2024 and up to the date of this report are as follows:

Ms. Li Yan
Mr. Khor Khie Liem Alex
Mr. Wong Tung Yuen (appointed on 20 May 2024)
Mr. Cao Lei (retired on 22 February 2024)

Ms. Li Yan was appointed as the chairman of the CG Committee.

The primary functions of the CG Committee include (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the CG code and disclosure in the corporate governance report.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2024, the CG Committee held one meeting to review, among others, the Company's policies and practices on corporate governance, continuous professional development of the Directors and senior management of the Group, the policies and practices on compliance with legal and regulatory requirement and Company's compliance with the CG code.

BOARD PROCEEDINGS

Regular Board meetings are held at quarterly intervals with additional meetings convened as and when necessary to discuss the overall strategic directions, the Group's operations, financial performance, and to approve interim and annual results and other significant matters. For regular meetings, Board members are given at least 14 days prior notice and agenda with supporting papers are sent to Directors not less than 3 days before the relevant meeting is held. Any Director may propose to the chairman or the company secretary of the Company to include matters in the agenda for regular board meetings.

During the year ended 31 December 2024, the Board held nine Board meetings and two annual general meetings were held by the Company.

Directors are requested to declare their direct or indirect interests, if any, in any proposals or transactions to be considered by the Board at Board meetings and abstain from voting in favour of the relevant board resolutions as appropriate.

Minutes of meetings of the Board and Board committees are kept by the company secretary of the Company with sufficient details of the matters considered and decisions reached, including dissenting views expressed, and are open for inspection on reasonable notice by any Director. Draft and final versions of the minutes are sent to all Directors for their comments and records respectively within a reasonable time after the Board meeting is held.

During the year ended 31 December 2024, all Directors had access to the advice and services of the company secretary of the Company with a view to ensuring the Board procedures are followed.

MEETING WITH INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year ended 31 December 2024, the chairman of the Company had one meeting with the independent non-executive Directors without the presence of other Directors or senior management to review and discuss, among other things, any issue which is of special concern of the independent non-executive Directors and confirmed that the independent non-executive Directors can express their views in Board meetings without restrictions.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Mr. Yuan Hongbing has entered into a service contract with the Company for a term of three years commencing from 28 March 2023. Each of Ms. Li Yan and Mr. Khor Khie Liem Alex has entered into a letter of appointment with the Company for a term of three years commencing 10 March 2023.

Mr. Ma Qinghai has entered into a service contract, and each of Mr. Chen Zhongzheng and Mr. Zhou Jinkai has entered into a letter of appointment with the Company for a term of three years commencing from 2 April 2024. Each of Dr. Lowe Chun Yip and Mr. Wong Tung Yuen has entered into a letter of appointment with the Company for a term of three years commencing from 20 May 2024. All Directors are subject to retirement and re-election at annual general meeting of the Company in accordance with the Company's articles of association.

CORPORATE GOVERNANCE REPORT

In accordance with the Company's articles of association, a person may be elected as a Director either by the Shareholders in general meeting or appointed by the Board. Any Directors appointed by the Board as additional Directors or to fill casual vacancies shall hold office until the next following annual general meeting, and are eligible for re-election by the Shareholders. In addition, all Directors are required to retire by rotation at least once every three years and are subject to re-election by the Shareholders at the annual general meetings.

BOARD DIVERSITY POLICY

The Board has adopted a board diversity policy (the "Board Diversity Policy"). The Company recognises and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge.

The Company considers that it has complied with the Board Diversity Policy. As at 31 December 2024, the Board comprised eight Directors, seven of which were male Directors and one of which was female Director, with different age, educational background and professional experience. The Board and the Nomination Committee will review the Board Diversity Policy to ensure its effectiveness.

At the Group's senior management and entire workforce levels, approximately 50% and 63% of them are female respectively. The Board considered it has achieved gender balance at all levels, and shall strive to maintain not less than 10% of the personnels with different gender across all three levels (i.e. the Board, senior management and entire workforce level) through nomination, recruitment and promotion processes.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 to the Listing Rules as the Company's code of conduct regarding Directors' securities transactions ("Model Code"). Upon specific enquiries, all Directors confirmed that they have complied with the relevant provisions of the Model Code for the year ended 31 December 2024.

Senior management who, because of their offices in the Group, are likely to be in possession of inside information, have also been requested to comply with the provisions of the Model Code.

CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

Ms. Lui Mei Ka (“Ms. Lui”) has been appointed as the company secretary of the Company with effect from 15 July 2024. Ms. Lui is an external service provider whose primary contact person in the Group was Mr. Yuan Hongbing, the chairman and executive Director.

Ms. Lui, graduating from The Chinese University of Hong Kong with a degree in bachelor of business administration, is a member of the Hong Kong Institute of Certified Public Accountants. Ms. Lui currently serves as the managing director of Merit Corporate Services Company Limited. Ms. Lui has been an independent non-executive director of China Tangshang Holdings Limited (stock code: 674), GoFintech Innovation Limited (stock code: 290) and China Tontine Wines Group Limited (stock code: 389), which are listed on the Main Board of the Stock Exchange, since 21 April 2017, 19 September 2023 and 30 September 2024, respectively.

Ms. Lui has over 17 years of experience in financial management and corporate finance. From October 2016 to July 2018, she was the chief financial officer and company secretary of GR Life Style Company Limited (formerly known as GR Properties Limited) (stock code: 108), a company listed on the Main Board of the Stock Exchange, which is engaged in property development and investment. From March 2014 to May 2016, she was the company secretary and financial controller of LT Commercial Real Estate Limited, a company previously listed on the Main Board of the Stock Exchange under the stock code 112, which was engaged in property development and investment.

Ms. Lam Yuen Ling Eva (“Ms. Lam”), has been appointed as the company secretary of the Company with effect from 1 October 2023 and resigned on 15 July 2024. Ms. Lam has over 30 years of experience in company secretarial services and commercial solutions. She is currently a director of BMI Listed Corporate Services Limited and is responsible for supervising the company secretarial teams to provide full range of listed and private company secretarial services to clients. Ms. Lam obtained a Higher Certificate in Company Secretaryship and Administration from the Hong Kong Polytechnic University and was awarded a degree of Master of Science in Corporate Governance and Directorship by the Hong Kong Baptist University. Ms. Lam is a fellow of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute, and was awarded the qualification of Chartered Governance Professional. She is also a Life Associate Member of The Hong Kong Independent Non-Executive Director Association. Ms. Lam is currently the company secretary or joint company secretary of several companies listed on the Main Board of The Stock Exchange of Hong Kong Limited. The primary contact person of the Company with the Company Secretary is Mr. Yuan Hongbing, an executive Director.

During the year ended 31 December 2024, the company secretary of the Company complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

FINANCIAL REPORTING, RISK MANAGEMENT AND INTERNAL CONTROLS

Financial Reporting

The Board acknowledges its responsibility to prepare the Company’s accounts which give a true and fair view of the Group’s state of affairs, results and cash flows for the year ended 31 December 2024 and in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the disclosure requirements of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong). The Company has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgments and estimates.

The responsibilities of Forvis Mazars CPA Limited (“Forvis Mazars”), the Company’s external auditor, with respect to financial reporting are set out in the section headed “Independent Auditor’s Report” in this annual report.

The auditor’s report on the consolidated financial statements of the Group for the year ended 31 December 2024 includes paragraphs regarding material uncertainty related to going concern as set out on page 47 of this annual report.

CORPORATE GOVERNANCE REPORT

Risk Management and Internal Controls

The Board acknowledges that it is the responsibility of the Board for establishing and maintaining appropriate and effective risk management and internal control systems. Also, the Board has overall responsibilities for the risk management and internal control systems of the Group on an ongoing basis, and for reviewing its effectiveness on an annual basis. The established systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

In March and April 2019, the Company entered into 2 sale and purchase agreements (the “Sale and Purchase Agreements”) with Mr. Yu Kin Wai and Mr. Chu Hin Ming Alfonso (the “Vendors”) to acquire the entire issued share capitals of Bisan Parkwell Consultants Limited and Parkwell Services Consultants Limited (the “Acquisitions”). The aforesaid companies held 49% legal and beneficial interest in the issued share capitals of two property companies in Malaysia (the “Property Companies”), which in turn held the interest in an aggregate of 68 units in the building called “The Apple” located in Melaka, Malaysia (the “Properties”). The consideration was satisfied by way of issue and allotment of an aggregate of 117,118,818 consideration shares at the issue price of HK\$0.55 per share, which have been issued to the Vendors in March and April 2019. For details, please refer to the announcement of the Company dated 19 March 2019 and 12 April 2019. In May 2022, the Board was informed by the Vendors that the Sale and Purchase Agreements have been terminated by the developers, to the effect that the Property Companies will cease to have any interest in the Properties. The Board did not have the supporting documents or information in relation to the termination. In view of the uncertainty in relation to the termination, the audit process for the financial statements for the year ended 31 December 2021 could not be completed by 13 May 2022. As a result, trading in the Shares on the Stock Exchange has been suspended since 12 May 2022. Consequently, the audit process for the financial statements for the year ended 31 December 2022 could also not be completed within the stipulated deadline required under the Listing Rules.

The Company had engaged Deloitte & Touche Financial Advisory Services Limited (Guangzhou Branch) (the “Forensic Accountant”) as the Company’s forensic accountant to conduct an independent forensic investigation into the incident. The key findings of the Forensic Accountant includes: (i) the Acquisitions were proposed by Mr. Chen Yenfei and other Directors were not involved in the liaison with the counterparties of the transaction; (ii) after the resignation of Mr. Chen Yenfei, there was no management who was responsible for liaising with the Vendors on the progress of the Acquisitions, the Properties and the payment of purchase price of the Properties. The Company was only informed by the Vendors in early 2022 that payment of the purchase price of the Properties was not made in a timely manner; (iii) since the share price of the Company continued to fall and trading volume remained low, the proceeds from the disposal of the consideration shares were insufficient to support the payment of the balance of the purchase prices of the Properties; (iv) according to the parent company of the developer, the main reason why the property transactions were terminated was that the Vendors failed to pay the purchase prices of the Properties in a timely manner in accordance with the property agreements despite repeated requests and indulgence granted by the developers. For more details of the key findings of the Forensic Accountant, please refer to the announcement of the Company dated 26 October 2023. The independent investigation committee of the Company and the Board have reviewed the forensic investigation report and consider that the contents and findings of the report reasonable and acceptable.

CORPORATE GOVERNANCE REPORT

The Company has also engaged SHINEWING Risk Services Limited (“SHINEWING”) to conduct an internal control review. The internal control review covers the period from 1 January 2022 to 31 August 2023. SHINEWING identified 15 internal control deficiencies. The Group has taken remedial actions and SHINEWING has performed follow up reviews on the enhanced internal control measure adopted by the Group. Having considered the aforesaid, the Board and the audit committee of the Company are of the view that (i) the major internal control deficiencies have been remedied and the associated risks have been controlled at a reasonable level, and (ii) the rectification actions and improvement measures implemented by the Company are sufficient to address the key findings of the internal control review.

Policy and procedures have also been established for investment management, including but not limited to analysis and approval procedures for investment and declaration of interest.

For more details, please refer to the announcements of the Company dated 26 October 2023 and 6 November 2023. The annual results announcement of the Company for the year ended 31 December 2022 was published on 2 November 2023 and trading in the Shares have been resumed on 6 December 2023.

During the Reporting Period, the Board had outsourced its internal audit function to an independent internal audit firm (the “Internal Auditor”). The Internal Auditor reports directly to the Audit Committee once a year on all internal audit matters. The Audit Committee reviewed the internal audit report and would monitor the implementation of the improvements required on internal control weaknesses identified.

Even though the Group does not maintain an internal audit function, the Board has overall responsibility for the risk management and internal control systems and for reviewing its effectiveness. The Audit Committee and the Board would review the risk management and internal control systems once annually. Based on the review of the Group’s internal control systems by the Internal Auditor, the Directors were satisfied that effective and adequate internal control measures as appropriate to the Group for the year ended 31 December 2024 were implemented properly and that no significant areas of weaknesses were identified.

Policies and procedures for releasing information to external parties had been established and are in place, which covers the handling and dissemination of inside information, with an aim to provide accurate, complete and timely information to all stakeholders of the Group. These policies and procedures define the class and form of the information to be disclosed, the procedures for dissemination and disclosure of information, and communication with investors, financial analysts and media. They also include the policies for communication with shareholders, and the information management for subsidiaries and associated companies of the Company.

The Company’s vision is to become the leading pharmaceutical company by leveraging on its solid foundation in the PRC and has formulated a set of values and strategy guiding its operation. The vision has been considered with significance when developing the Group’s internal policies and making day-to-day business decisions so that the Group would not take undue risks to make short-term gains at the expense of such long-term objectives.

CORPORATE GOVERNANCE REPORT

Establishment of Independent Investigation Committee

On 12 August 2022, the Company received a resumption guidance letter (the “Resumption Guidance”), pursuant to which the Stock Exchange requires the Company to, inter alia, (i) conduct an appropriate independent forensic investigation (the “Investigation”) into two acquisitions (the “Acquisitions”) (including the two side agreements), the termination thereof and the other related matters raised by the Company auditors, announce the findings and take appropriate remedial actions and (ii) conduct an independent internal control review (the “Internal Control Review”) and demonstrate that the Company has in place adequate internal controls and procedures to comply with the Listing Rules.

As disclosed in the announcement of the Company dated 12 May 2023, a report on the Internal Control Review and the report on the Investigation were completed. On 17 August 2023, the Board has resolved to establish an independent investigation committee (the “Committee”), initially comprising three independent non-executive Directors at the material time, namely Mr. Cao Lei, Ms. Li Yan and Mr. Khor Khie Liem Alex, for the purpose of, among other things, conducting a comprehensive forensic investigation (the “Forensic Investigation”) into the Acquisitions; reporting and making recommendations to the Board on appropriate actions to be taken.

As disclosed in the announcement of the Company dated 26 October 2023, the Committee and the Board have reviewed the forensic investigation report (the “Forensic Investigation Report”) and adopted the findings of the Forensic Investigation. The Board was of the view that the issues identified in the Forensic Investigation Report do not affect the business operation of the Group, and that with the proposed internal control measures, the Company would be able to monitor and control the risks of investments in the future.

For details of the matters relating to the Acquisitions, the Investigation, the Internal Control Review, the Forensic Investigation and the Committee, please refer to the announcements of the Company dated 12 May 2023, 29 May 2023, 11 August 2023, 17 August 2023 and 26 October 2023.

EXTERNAL AUDITORS

On 9 December 2024, CCTH CPA Limited resigned as external auditors of the Company and Forvis Mazars was appointed as the external auditors of the Company on 9 December 2024 to fill the casual vacancy so arising from the resignation of CCTH CPA Limited. The independence of the external auditors is recognised and reviewed by the Board and the Audit Committee on an annual basis. For the year ended 31 December 2024, the fees paid and payable to Forvis Mazars in respect of their audit services provided to the Group were RMB1.3 million and the fees paid to Forvis Mazars in respect of non-audit service assignment amounted to RMB nil.

There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditors during the year under review.

NON-COMPETE UNDERTAKING BY CONTROLLING SHAREHOLDERS

Mr. Chen Yenfei and Praise Treasure Limited are the controlling shareholders (within the meaning of the Listing Rules) of the Company (the “Controlling Shareholders”). To protect the Group from any potential competition with the Controlling Shareholders, the Controlling Shareholders have executed the Deed of Non-competition (the “Deed of Non-competition”) in favor of the Company on 26 May 2015.

CORPORATE GOVERNANCE REPORT

The Company has adopted the following measures to manage any potential or actual conflict of interests between the Group and the Controlling Shareholders in relation to the compliance and enforcement of the non-compete undertaking:

- (a) the independent non-executive Directors will review, on an annual basis, the compliance with the undertaking given by the Controlling Shareholders under the Deed of Non-competition;
- (b) the Controlling Shareholders undertake to provide all information requested by the Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the Deed of Non-competition;
- (c) the Company will disclose the decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the non-compete undertaking of the Controlling Shareholders under the Deed of Non-competition in the annual reports of the Company; and
- (d) the Controlling Shareholders will make an annual declaration on compliance with their undertaking under the Deed of Non-competition and disclose the same in the annual reports of the Company.

The Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between the Controlling Shareholders and their respective associates and the Group and to protect the interests of the Shareholders, in particular, the minority Shareholders. Each of the Controlling Shareholders has confirmed in writing to the Company that he/it has complied with the Deed of Non-competition for the year ended 31 December 2024. Based on such written confirmation from the Controlling Shareholders and other appropriate queries made by the independent non-executive Directors, the independent non-executive Directors considered that the Controlling Shareholders have complied with all the undertakings under the Deed of Non-competition for the year ended 31 December 2024.

COMMUNICATION WITH SHAREHOLDERS AND SHAREHOLDERS' RIGHTS

The Company aims to, through its corporate governance measures, provide all the Shareholders an equal opportunity to exercise their rights in an informed manner and allow the Shareholders to engage actively with the Company. Under the Company's articles of association, the Shareholder communication policy and other relevant internal procedures of the Company, the Shareholders enjoy, among others, the following rights:

(i) Participation at general meetings

The general meetings of the Company provide an opportunity for direct communication between the Board and the Shareholders. The Company encourages the participation of the Shareholders through annual general meetings and other general meetings where the Shareholders can meet and exchange views with the Board, and to exercise their right to vote at meetings. Prior notices of meetings with sufficient notice period in compliance with the articles of association of the Company and the Listing Rules and circulars containing details on the proposed resolutions will be sent to the Shareholders before the meeting. At the general meetings, separate resolutions are proposed on each material matter, including the election/re-election of each individual Directors. Two general meetings were held during the year ended 31 December 2024.

CORPORATE GOVERNANCE REPORT

(ii) Enquiries and proposals to the Board

The Company encourages Shareholders to attend general meetings and make proposals by either directly raising questions on both operational and governance matters to the Board and/or Board committees at the general meetings or providing written proposals for the attention of the Board at the principal place of business of the Company in Hong Kong (currently situated at Suites 2601–2603, 26/F, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong).

(iii) Convening extraordinary general meeting

The Directors may, whenever they think fit, convene an extraordinary general meeting. Extraordinary general meetings shall also be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, an aggregate of not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Directors or the company secretary of the Company and deposited at the principal place of business of the Company in Hong Kong (currently situated at Suites 2601–2603, 26/F, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong) for the purpose of requiring an extraordinary general meeting to be called by the Directors for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Directors fail to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to the requisitionist(s) by the Company.

There are no provisions under the Company's articles of association or the Companies Act, Cap 22 (Act 3 of 1961, as consolidated and revised) of the Cayman Islands regarding procedures for Shareholders to put forward proposals at general meetings other than a proposal of a person for election as director. Shareholders may follow the procedures as set out above to convene an extraordinary general meeting for any business specified in such written requisition.

The notice of annual general meeting together with the accompanying circular setting out the relevant information as required under the Listing Rules are sent to Shareholders at least 21 clear days prior to the meeting. Poll voting has been adopted for decision-making at general meetings to ensure that each share is entitled to one vote. Details of the poll voting procedures are set out in the circular sent to Shareholders prior to the meeting and explained at the commencement of the meeting. Voting results are posted on the Company's website on the day of the annual general meeting.

(iv) Procedures for proposing a person for election as a Director

Pursuant to the article 85 of the articles of association of the Company, no person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a Notice (as defined therein) signed by a Member (as defined therein) (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a Notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Registration Office (as defined therein) provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven days and that (if the Notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgment of such Notice(s) shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting.

CORPORATE GOVERNANCE REPORT

Accordingly, if a Shareholder wishes to nominate a person to stand for election as a Director, the following documents must be validly served on the Board, namely (i) his/her notice of intention to propose a resolution at the general meeting; and (ii) a notice signed by the nominated candidate of the candidate's willingness to be appointed as a Director together with (A) that candidate's information as required to be disclosed under Rule 13.51(2) of the Listing Rules and such other information, as set out in the below paragraph headed "Required information of the candidate(s) nominated by Shareholders", and (B) the candidate's written consent to the publication of his/her personal data.

Required information of the candidate(s) nominated by Shareholders

In order to enable the Shareholders to make an informed decision on their election of Directors, the abovementioned notice of intention to propose a resolution by a Shareholder should be accompanied by the following information of the nominated candidate(s):

- (a) full name and age;
- (b) positions held with the Company and its subsidiaries (if any);
- (c) experience including (i) other directorships held in public companies of which the securities are listed on any securities market in Hong Kong and overseas in the past three years, and (ii) other major appointments and professional qualifications;
- (d) current employment and such other information (which may include business experience and academic qualifications) of which Shareholders should be aware of, pertaining to the ability or integrity of the candidate;
- (e) length or proposed length of service with the Company;
- (f) relationships with any Directors, senior management, substantial shareholders or controlling shareholders (as defined in the Listing Rules) of the Company, or an appropriate negative statement;
- (g) interests in the Shares within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") (Chapter 571 of the Laws of Hong Kong), or an appropriate negative statement;
- (h) a declaration made by the nominated candidate in respect of the information required to be disclosed pursuant to Rule 13.51(2)(h) to (w) of the Listing Rules, or an appropriate negative statement to that effect where there is no information to be disclosed pursuant to any of such requirements nor there are any other matters relating to that nominated candidate's standing for election as a Director that should be brought to Shareholders' attention; and
- (i) contact details.

The Shareholder proposing the candidate will be required to read out aloud the proposed resolution at the general meeting.

Having considered the above communication measures and channels, the Company considers the Shareholders communication policy is effective and sufficient during the year ended 31 December 2024.

CORPORATE GOVERNANCE REPORT

CONSTITUTIONAL DOCUMENTS

There was no change in the Memorandum and Articles of the Company for the year ended 31 December 2023.

On 22 February 2024, the Company has adopted the second amended and restated memorandum and articles of association of the Company by way of special resolution at the annual general meeting in order to conform to the core shareholder protection standards set out in Appendix A1 of the Listing Rules and the applicable laws of the Cayman Islands. For further details, please refer to the announcement and the circular of the Company dated 22 January 2024.

The Memorandum and Articles of the Company are available on the websites of the Stock Exchange and the Company.

POLICY ON PAYMENT OF DIVIDENDS

The Company has adopted a policy on payment of dividends (the “Dividend Policy”), which sets out the procedure on declaring and recommending dividend payment of the Company.

In deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, inter alia:

- (i) results of operations;
- (ii) cash flows;
- (iii) financial condition;
- (iv) statutory and regulatory restrictions on the payment of dividends by the Company;
- (v) future prospects; and
- (vi) other factors that the Board may consider relevant.

Holders of the Shares will be entitled to receive such dividends on a pro rata basis according to the amounts paid up or credited as paid up on the Shares. Dividends may be paid only out of the Company's distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in the Group's operations.

Declaration and payment of dividends by the Company are also subject to the articles of association of the Company and the laws of the Cayman Islands.

There can be no assurance that the Company will be able to declare or distribute any dividend in the amount set out in any plan of the Board or at all. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by the Company in the future.

The Dividend Policy will continue to be reviewed from time to time by the Board.

DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and the senior management as at the date of this report are as follows:

EXECUTIVE DIRECTOR

Yuan Hongbing (袁紅兵), aged 47, was appointed as an executive Director with effect from 28 March 2023. Mr. Yuan has over 20 years of work experiences in investment industry. He is skilled in capital management, mergers and acquisitions as well as investment banking. Mr. Yuan is the founder and the chairman of the board of directors of Yuanchuang Capital, which is principally engaged in venture investment, investment in mergers and acquisitions and reorganization, industrial investment and fund management. Mr. Yuan has been an executive director and the chief executive officer of Jintai Energy Holdings Limited, a company whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") (stock code: 2728), since 31 May 2019 and 27 September 2019 respectively. Mr. Yuan was an executive director of China Clean Energy Technology Group Limited, a company whose shares are listed on the Main Board of the Stock Exchange (stock code: 2379), from 3 October 2022 to 17 March 2023.

Mr. Ma Qinghai (馬清海), aged 60, graduated from Jingdezhen Health School (景德鎮市衛生學校) in Jiangxi Province with major in medicine specialist (醫士專業) and once participated in the correspondence learning course of Traditional Chinese Medicine of Traditional Chinese Medicine (江西中醫學院) and the MBA training program of Shanghai University of Finance and Economics (上海財經大學). Mr. Ma has many years of experience in clinical medical practice, over 10 years of experiences in front-line practice of pharmaceutical marketing and over 10 years of experiences in the management in pharmaceutical enterprises. He served in several well-known domestic pharmaceutical enterprises, and just resigned as the assistant general manager of Sinopharm Holding Xinye (Hubei) Pharmaceutical Co., Ltd. (國藥控股鑫燁(湖北)醫藥有限公司) and the director of Guangji Business Division (廣濟事業部) of the company. Mr. Ma is a comprehensive professional manager with extensive experience in pharmaceutical enterprise management, marketing practice and team internal training.

Mr. Chen Zhongzheng (陳中正), aged 32, graduated from Wuhan Textile University and obtained a Bachelor's degree from the Engineering Department. He has many years of experience in business administration of enterprises and projects, including management experience in universal health projects. Mr. Chen is currently the assistant to the general manager of Zhongnan Fanhua Construction (Hubei) Co., Ltd. (中南泛華建設(湖北)有限公司).

Mr. Zhou Jinkai (周金凱), aged 72, graduated from the Renmin University of China with a Bachelor's degree in Business Administration. Mr. Zhou was the chairman of the board of directors of 深圳市金凱利實業發展有限公司 from 1993 to 2003 and 深圳市嘉士圖實業發展有限公司 from 2004 to 2012. Mr. Zhou was also the shareholder and director of China Dynamics (Holdings) Limited (中國動力(控股)有限公司) (now known as Ev Dynamics (Holdings) Limited) (stock code: 476), a company listed on the Main Board of the Stock Exchange, from 2013 to 2020. Mr. Zhou is currently the chairman of the board of directors of 香港寶祥國際有限公司 since 2021.

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Li Yan (李燕), aged 47, graduated from the Wuhan Institute of Chemical Technology (武漢化工學院) (currently known as Wuhan Institute of Technology (武漢工程大學)) in July 2000 with a bachelor's degree in accounting. Ms. Li has been a Chinese Certified Public Accountant since 2002 and a Certified Financial Manager since 2014. She started to work in auditing in 2000 and worked in a well-known domestic accounting firm. Ms. Li has been engaged in accounting and financial management since 2008. She has been appointed as the chief financial officer of a number of listed companies, and led or participated in a number of investment, financing and merger and acquisition projects, and participated in a number of corporate restructuring and initial public offering projects of these companies.

Khor Khie Liem Alex (許麒麟) (formerly known as Mr. Khor Kee Lin), aged 57, has accumulated more than 20 years of working experiences in the fields of finance, capital market, financial reporting and financial compliance services. Mr. Khor has been the founding director of KBS Capital Partners (Singapore) Pte. Ltd. ("KBS Capital") since July 2004, which principally provides accounting, tax, company secretarial compliance services, and corporate advisory services, including initial public offering facilitation, merger and acquisition services and project financing services. Mr. Khor has completed various initial public offering, merger and acquisition and project fund-raising transactions for KBS Capital's clients from Singapore, Malaysia and China.

Mr. Khor has been appointed as an independent non-executive director of Sanai Health Industry Group Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1889) with effect from February 2021; and an independent non-executive director of Xinming China Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 2699) with effect from August 2021; and an independent non-executive director of JLOGO Holdings Limited, a Company listed on the GEM Board of the Stock Exchange (stock code: 8527) with effect from April 2024. With effect from 1 November 2023, Mr. Khor Khie Liem Alex was appointed as an independent director of Davis Commodities Limited, a company listed on NASDAQ CM.

Prior to founding KBS Capital, Mr. Khor was the group financial controller of CFM Holdings Limited between 2002 and 2004, the group financial controller of TEE International Limited between 2000 and 2002, and the regional financial controller of Showpla Asia Limited between 1997 and 2000, all of which are listed on Singapore Exchange Limited.

Mr. Khor was admitted as an associate and a fellow member of the Association of Chartered Certified Accountants in 1999 and 2002, respectively. He obtained a Master of Business Administration from University of Leicester, United Kingdom in 2004. He is a Chartered Accountant of both the Institute of Singapore Chartered Accountants and the Malaysian Institute of Accountants.

DIRECTORS AND SENIOR MANAGEMENT

Lowe Chun Yip (婁振業), aged 44, obtained a degree of Bachelor of Art and master of philosophy from the Chinese University of Hong Kong in December 2004 and December 2009, respectively. After completing his master's degree, he furthered his studies at the Free University of Berlin in Germany, where he successfully earned his doctorate in philosophy in February 2014. Dr. Lowe has an extensive academic background and a wealth of teaching experience. Dr. Lowe is currently a scholar serving as a lecturer at the Chinese University of Hong Kong and the Hong Kong Baptist University International College. His professional courses encompass a wide range of areas, including political philosophy, ethics of public policy, world civilization relations and classic readings. Dr. Lowe also held a position as a research associate at the Chinese University of Hong Kong, where his research expertise is primarily focused on moral and political philosophy, political economy and international relations. Dr. Lowe's academic research findings have been published in various international academic journals and presented at conferences. Dr. Lowe has also served as an independent non-executive director of China Smartpay Group Holdings Ltd., a company listed on the GEM of the Stock Exchange (stock code: 8325), since December 2023.

Wong Tung Yuen (王東源), aged 34, has over 8 years of experience in capital markets advisory at various investment banks, specialising in initial public offerings and capital fund raising for companies in Hong Kong. He is a managing director of ZMF Asset Management Limited since September 2023 and had been previously working in several corporate finance advisory companies. Mr. Wong obtained a bachelor degree in accounting and finance from Lancaster University in the United Kingdom in 2013 and a master degree in management from University College London in the United Kingdom in 2015. Mr. Wong is an independent non-executive director of Ganglong China Property Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 6968), since December 2023.

SENIOR MANAGEMENT

Li Xiaoduo (李小多), aged 57, is a manager in charge of the manufacturing operation of the Group. Mr. Li joined the Group in 1998 and is mainly responsible for the production and quality control of the Group. Mr. Li has over 18 years of experiences in the pharmaceutical industry. Mr. Li was appointed as the deputy general manager of Wuhan Baixin Holdings Group Limited (武漢百信控股集團有限公司) since March 1998 in charge of manufacturing operation. Prior to joining the Group, he was the workshop supervisor and chief of biotech of Chengdu Di Kang Pharmaceuticals Limited (成都迪康製藥公司) from February 1996 to February 1998. He also worked for Chongqing Oriental Pharmaceutical Co., Limited (重慶東方藥業股份有限公司) from July 1994 to February 1996, responsible for developing new products. Mr. Li graduated from Chengdu College of Traditional Chinese Medicine (成都中醫學院) in July 1994, majoring in traditional Chinese medicine.

Tang Zaixiu (唐再秀), aged 46, is the head of accounting department of the Group. She is mainly responsible for daily accounting. Ms. Tang has over 15 years of experiences in accounting. She has worked as the cashier, accountant, financial supervisor and financial manager of Chengdu Kexun since 1999. Ms. Tang graduated from Chongqing Technology and Business University (重慶工商大學) on 30 June 2007, majoring in accounting.

REPORT OF DIRECTORS

The Directors are pleased to present their report together with the audited consolidated financial statements of the Company for the year ended 31 December 2024.

BUSINESS REVIEW

A review of the business of the Group during the year ended 31 December 2024 and further discussion and analysis, including an indication of the likely future developments in the Group's business are set out in the section headed "Management Discussion and Analysis" of this annual report. These discussions form part of this report of Directors.

CORPORATE INFORMATION

The Company was incorporated on 3 May 2011 as a limited liability company under the Companies Act, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Act"). The Shares were listed on the Stock Exchange on 19 June 2015.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the Group primarily operates two business segments in China, namely (1) pharmaceutical distribution; and (2) pharmaceutical manufacturing. The analysis of the revenue of the principal activities of the Group during the year ended 31 December 2024 is set out in note 6 to the consolidated financial statements in this annual report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2024 are set out in the consolidated statement of profit or loss on page 52 of this annual report.

FINAL DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 December 2024 (2023: Nil).

FINANCIAL SUMMARY

A summary of the Group's results, assets, liabilities for the last five financial years are set out on page 4 of this annual report. This summary does not form part of the audited consolidated financial statements.

REPORT OF DIRECTORS

RISKS AND UNCERTAINTIES RELATING TO THE GROUP'S BUSINESS

The Group's financial condition, results of operations, businesses and prospects would be affected by a number of risks and uncertainties including business risks, operational risks and financial risks. The Group's key risk exposures are summarised as follows:

Compliance risks

(i) Qualitative factors

There are potential and inherent risks in the process of production, packaging, promotion, providing guidance services and selling pharmaceutical or health products by all the subsidiaries of the Group in the Company, self-operating or franchising entities, such as unsafe or defective products outflow to the market.

If the products cause injury or death due to qualitative factors and issues, the Company may face compensation and need to recall products. The PRC government may also order to cease the operation of the department which made the mistakes. Both the compensation and recall would severely affect the business, financial position and reputation of the Company.

The Company mitigates the risks by:

- (1) assessing as to whether it is necessary to purchase insurance to reduce potential economic losses caused by quality issues;
- (2) strictly selecting suppliers and obtaining pharmaceutical approval for products purchased;
- (3) regularly assessing the services provided by suppliers;
- (4) conducting safety inspection on the quality of each batch of products (including self-produced products and purchased products), and maintaining records of receipt and delivery of goods, records of batch production and relevant records of production;
- (5) consulting quality control consultants for quality and safety standards; and
- (6) regularly monitoring the market conditions of the industry, in order to ensure that no quality issues exists in the suppliers' and the Company's products for sale and materials purchased for production.

REPORT OF DIRECTORS

Strategic risks

(i) Acquisition risks

The Company may successfully expand its business by acquisition. One of the strategies of the Company is to continue to seek for acquisition and alliance. However, acquisition involves various risks and uncertainties that may affect the Company, including:

- (1) failure to identify a suitable acquisition target;
- (2) failure to complete acquisition on reasonable commercial terms and at reasonable acquisition cost;
- (3) failure to timely obtain the required approvals from government, consents from third parties and land use rights;
- (4) potential, unforeseeable or hidden financial obligation and legal liability of the acquisition target of the Company;
- (5) failure to achieve synergy, expected goals or benefits generated from acquisition; or requiring to generate enough turnover to recover acquisition cost; and
- (6) earnings per share or profit margin possibly being diluted due to the decline in profitability of the business acquired.

The Company mitigates the risks by:

- (1) carrying out detailed background investigation on the acquisition target and analysis on its effect on the existing business structure;
- (2) carrying out detailed due diligence and feasibility analysis on the acquisition target (including expected earnings, cost of capital, business and legal terms and performance of obligations, and so forth);
- (3) carrying out supervision and review on the execution of acquisition target; and
- (4) establishing investment project team specializing in the supervision and management on the preliminary work, execution and follow-up work of each acquisition target.

REPORT OF DIRECTORS

Operational risks

(i) Risk of non-compliance with safety standards

In recent years, the PRC government has been enhancing its supervision on the quality and safety standards of the pharmaceutical industry. If the Company fails to meet the quality and safety standards stipulated by the PRC government, the Company shall be fined and be required to invest fund immediately to make corresponding improvements in order to meet the existing standards. Thus, the Company's liquidity, profitability, expansion plans and other operational strategies may be affected. If the Company's products cause injury or death due to failure to meet standards stipulated by the PRC government, the Company shall be fined, prosecuted, or even be confronted with suspension crisis, which would severely affect the reputation of the Company.

The Company mitigates the risks by:

- (1) setting quality and safety standards in compliance with the standards stipulated by the PRC government;
- (2) consulting with quality control consultants for quality and safety standards;
- (3) keeping an eye on changes in the market and regulations of the pharmaceutical industry in the PRC, formulating response plans for changes, and if necessary, consulting with lawyers or quality control consultants for response plans; and
- (4) continuously updating and using compliance lists to ensure relevant personnel to carry out business and operation in compliance with the compliance lists.

(ii) Risk related to bidding for pharmaceuticals distribution

The Company operates agricultural distribution and selling business which primarily sells pharmaceuticals to hospitals and medical institutions in rural areas, provided that the Company can obtain the authority for pharmaceuticals supply from provincial or municipal governments through public bidding.

If the Company is unsuccessful in the bidding or fails in the bidding due to failure to timely response to changes in bidding procedures and policies, the Company will lose the authority to sell to provincial hospitals and other medical institutions, which will cause negative impacts on the agricultural distribution and selling business and market share of the Company. This will bring material and adverse impacts on the business operation, sustainable operation and cash flows of the Company.

REPORT OF DIRECTORS

The Company shall constantly strive to strengthen and develop its various competitive strength and advantage. For this purpose, it takes measures such as the following:

- (1) maintaining good communications and relationships with government departments and various medical institutions;
- (2) continuously monitoring and updating information on bidding for pharmaceuticals distribution; and
- (3) taking measures in response to unsuccessful bids, including changing sales strategies to allocate resources to explore other new sales channels (such as implementing online sales) and strengthening distribution and sales and expanding franchise network, etc.

(iii) Impacts caused by natural disasters

The Company's main production facilities are all located in Chengdu and Sichuan Province. If these production facilities in the same place are damaged due to attack by natural disasters such as flood, fire, or earthquake, the Company may be required to spend a lot of money and time for repairs. Meanwhile, if there is no alternative production equipment, it may cause insufficient production quantity or production interruption, and failure to meet customer demand, which may cause a decrease in the revenue of the Company.

The Company mitigates the risk by:

- (1) purchasing insurance to ensure the Company can get compensation and restore productivity as soon as possible; and
- (2) engaging professionals to carry out annual review on the safety of factory.

Financial risks

The Group is also subject to the following financial risks:

- (i) Foreign currency exchange risk
- (ii) Interest rate risk
- (iii) Credit risk
- (iv) Liquidity risk
- (v) Price risk

The above risks and uncertainties are not exhaustive and there may be other risks and uncertainties in addition to those mentioned above which are not known to the Group or which may not be material now but could turn out to be material in the future.

REPORT OF DIRECTORS

PLEDGED ASSETS

At 31 December 2024, the Group's leasehold land and buildings with aggregate net carrying amount of approximately RMB26.5 million (2023: approximately RMB28.9 million) were pledged to secure bank borrowings.

GEARING RATIO

The Group's gearing ratio is calculated by net debts divided by total equity. The Group's net debts include repayment obligations under the Scheme of Arrangement, bank borrowings, corporate bonds and other borrowings, less cash and cash equivalents. As at 31 December 2024, the Group's gearing ratio was -152.7% (2023: -128.7%).

ENVIRONMENTAL, SOCIAL AND CORPORATE RESPONSIBILITY AND COMPLIANCE WITH LAWS AND REGULATIONS

As a responsible corporation, the Group is committed to maintain the highest environmental and social standards to ensure sustainable development of its business.

The Group is subject to the following major PRC laws and regulations:

(i) Business operation

- Administrative Measures for the Registration of Pharmaceuticals 《藥品註冊管理辦法》
- Administrative Measures for Pharmaceutical Supply Permit 《藥品經營許可證管理法》
- Good Supply Practice Rules for Pharmaceuticals 《藥品經營質量管理規範》
- Measures for the Certification of Good Supply Practice of Pharmaceutical Operations 《藥品經營質量管理規範認證管理辦法》
- Good Manufacturing Practices (2010 Revision) 《藥品生產質量管理規範(2010年修訂)》

(ii) Environmental and social standards

- the Environmental Protection Law of the PRC 《中華人民共和國環境保護法》
- the Labor Law of the PRC 《中華人民共和國勞動法》
- the Law of the PRC on the Prevention and Control of Water Pollution 《中華人民共和國水污染防治法》
- the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste 《中華人民共和國固體廢物污染環境防治法》
- the Law of the PRC on Safe Production 《中華人民共和國安全生產法》
- the PRC Labor Contract Law 《中華人民共和國勞動合同法》

During the year under review, the Group has complied with all relevant laws and regulations in relation to its business including production, health and safety, workplace conditions, employment and the environment that have a significant impact on the Group.

The Group strives to minimise its impact on the environment by reducing its electricity consumption and encouraging recycle of office supplies and other materials.

Further information about the Company's environmental policies and performance are disclosed in the environmental, social and governance report of the Company.

REPORT OF DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for approximately 49% of the total sales for the year ended 31 December 2024 and sales to the largest customer included therein amounted to approximately 22% of the total sales for the year. The credit terms granted to major customers are 30 to 180 days which are in line with those granted to other customers. Purchases from the Group's five largest suppliers accounted for approximately 79% of the total purchases for the year ended 31 December 2024 and purchases from the Group's largest supplier included therein amounted to approximately 56% of the total purchases for the year.

The Group has established a business relationship with its five largest customers and suppliers for more than five years. Management of the Company conducts review on customer and supplier composition on a regular basis to monitor whether there is over-reliance on certain counterparty.

None of the Directors or any of their close associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

Being people-oriented, the Group ensures all staff are reasonably remunerated and also continues to improve and regularly review and update its policies on remuneration and benefits, training, occupational health and safety.

The Group maintains good relationship with its customers. A customer complaint handling mechanism is in place to receive, analyse and study complaints and make recommendations on remedies with the aim of improving service quality.

The Group is in good relationship with its suppliers and conducts a fair and stringent appraisal of its suppliers on an annual basis.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2024 are set out in note 13 to the consolidated financial statements in this annual report.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2024 are set out in note 29 to the consolidated financial statements in this annual report.

REPORT OF DIRECTORS

RESERVES

Details of movements in the reserves of the Group during the year ended 31 December 2024 are set out on page 56 in the consolidated statement of changes in equity of this annual report and in note 36 to the consolidated financial statements in this annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2024, the Company's accumulated losses amounted to approximately RMB754.7 million and the Company's share premium amounted to approximately RMB691.9 million. By passing an ordinary resolution of the Company, dividends may be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Act of the Cayman Islands. As at 31 December 2024, the Company did not have reserves available for distribution (2023: Nil).

BANK BORROWINGS

Particulars of bank borrowings of the Group as at 31 December 2024 are set out in note 23 to the consolidated financial statements in this annual report.

RESTRUCTURING AND SCHEME OF ARRANGEMENT

Since 2020, various winding-up petitions were presented against the Company. As at the date of this report, the Re-Re-Amended Petition remains subsisting. The Re-Re-Amended Petition was filed by the Substituting Petitioner against the Company for the Company's failure to settle the principal sum and interest payment with total amount of HK\$2,573,424.66 in respect of the bond issued to the 2022 Petitioner by the Company. The Substituting Petitioner of the Re-Re-Amended Petition has signed a consent summons on 9 November 2023, pursuant to which the petitioner has agreed the Re-Re-Amended Petition be dismissed. Order has been pronounced by the High Court of Hong Kong on 20 November 2023 that the Re-Re-Amended Petition be dismissed.

In or around early June 2023, in view of the winding-up petitions, the Company contemplates a restructuring of its overall indebtedness position in order to address the liquidity issue faced by the Company.

On 20 July 2023, the Company, through its legal advisors, made an ex parte application to the High Court to apply for leave to convene the Scheme Meeting for the purpose of considering and, if thought fit, approving the Scheme of Arrangement and related directions.

The Scheme Meeting was held on 18 October 2023. During the Scheme Meeting, over 50% in number of, and representing not less than 75% in value of the claims of, the creditors present and voting in person or by proxy at the Scheme Meeting, have voted in favour of the Scheme of Arrangement. The High Court of Hong Kong sanctioned the Scheme of Arrangement on 1 November 2023. The Scheme of Arrangement was effective on 12 March 2024.

For details and progress of the restructuring and the Scheme of Arrangement, please refer to the announcements of the Company dated 25 July 2023, 11 August 2023, 8 September 2023, 15 September 2023, 25 September 2023, 18 October 2023 and 1 November 2023.

REPORT OF DIRECTORS

DIRECTORS

The Directors during the year ended 31 December 2024 and up to the date of this annual report were:

Executive Directors:

Mr. Yuan Hongbing (*Chairman*)

Mr. Ma Qinghai (*Chief Executive Officer*) (appointed on 2 April 2024)

Professor Xiao Kai (retired on 22 February 2024)

Mr. Feng Junzheng (retired on 22 February 2024)

Non-executive Directors:

Mr. Chen Zhongzheng (appointed on 2 April 2024)

Mr. Zhou Jinkai (appointed on 2 April 2024)

Mr. Zhang Tong (retired on 22 February 2024)

Mr. Chen Yunwei (retired on 22 February 2024)

Independent non-executive Directors:

Ms. Li Yan

Mr. Khor Khie Liem Alex

Dr. Lowe Chunn Yip (appointed on 20 May 2024)

Mr. Wang Tung Yuen (appointed on 20 May 2024)

Mr. Cao Lei (retired on 22 February 2024)

Each of the executive Directors has entered into a service contract, and each of the non-executive Directors, and independent non-executive Directors has entered into a letter of appointment, with the Company for a term of three years, subject to termination by (i) each of the executive Directors by not less than three month's notice in writing served on the other; and (ii) each of the non-executive Directors and the independent non-executive Directors by service of notice in writing to the Company at least 15 days in advance or by the Company at any time. All Directors are subject to retirement and re-election at the annual general meeting of the Company in accordance with the Company's articles of association. The details of the remuneration of each of the Directors are disclosed in note 9 to the consolidated financial statements in this annual report.

As at 31 December 2024 and up to the date of this annual report, no Director who will be proposed for re-election at the forthcoming annual general meeting of the Company has an unexpired service contract with the Group which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

REPORT OF DIRECTORS

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out on pages 25 to 27 of this annual report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors has confirmed their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent in accordance with Rule 3.13 of the Listing Rules.

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACTS OF SIGNIFICANCE

No Director has any material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the Group's business to which the Company, any of its subsidiaries, fellow subsidiaries or its parent companies were a party subsisted at the end of the year or at any time during the year ended 31 December 2024.

CONTRACTS OF SIGNIFICANCE ENTERED INTO BETWEEN THE GROUP AND THE CONTROLLING SHAREHOLDERS

There are not any contracts of significance entered into between the Group and the controlling shareholders (within the meaning of the Listing Rules) of the Company (or any of their subsidiaries) which subsisted at any time during the year ended 31 December 2024.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2024.

PERMITTED INDEMNITY PROVISION

Upon the expiry of previous directors and officers insurance on 6 December 2024, the Company did not arrange any new insurance cover in respect of legal actions against its Directors and senior management arising out of corporate activities up to the date of this report.

REPORT OF DIRECTORS

SHARE OPTION SCHEME

The Company adopted the share option scheme (the “Share Option Scheme”) on 26 May 2015 for the purpose of rewarding certain Eligible Persons (as defined below) for their past contributions and attracting and retaining, or otherwise maintaining on-going relationships with, such Eligible Persons (as defined below) who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group. Subject to the earlier termination of the Share Option Scheme in accordance with the rules thereof, the Share Option Scheme shall remain in force for a period of ten years commencing on 26 May 2015.

Subject to the requirement of the Listing Rules, eligible participants of the Share Option Scheme include, (i) any proposed, full-time or part-time employees, executives or officers of the Company or any of its subsidiaries; (ii) any director or proposed director (including an independent non-executive director) of the Company or any of its subsidiaries; (iii) any direct or indirect shareholder of the Company or any of its subsidiaries; (iv) any supplier, customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Company or any of its subsidiaries; (v) any person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Company or any of its subsidiaries and (vi) any associate of any of the persons referred to in paragraphs (i) to (v) above (the persons referred to above are the “Eligible Persons”).

In accordance with the resolution passed at the annual general meeting held in 28 June 2019 (“2019 AGM”), the maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the Shares in issue as at the date of the 2019 AGM, i.e. 147,499,290 Shares. During the year under review, no share options were granted under the Share Option Scheme. As at 31 December 2022, the total number of securities available for issue pursuant to the options granted under the Share Option Scheme was 100,000,000 Shares, representing in aggregate approximately 6.78% of the Company’s issued share capital as at the date of this annual report. As at 1 January 2023 and 31 December 2023, the total number of Shares in respect of which options available for grant under the Share Option Scheme were 47,499,290 Shares, representing in aggregate approximately 3.22% of the Company’s issued share capital as at the date of this annual report. Subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may grant options beyond the 10% limit to the Eligible Persons specifically identified by the Board.

The maximum number of Shares issued and to be issued upon the exercise of options granted under the Share Option Scheme (including exercised or outstanding options) to each grantee within any 12-month period, is limited to 1% of the Shares in issue at any time. Any further grant of options in excess of this 1% limit shall be subject to: (i) the issue of a circular by the Company; and (ii) the approval of the Shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time.

REPORT OF DIRECTORS

SHARE OPTION SCHEME *(Continued)*

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive Directors. In addition, any share options granted to a substantial shareholder (within the meaning of the Listing Rules) or an independent non-executive Director of the Company, or to any of their associates, in excess of 0.1% of the Shares in issue at any time and with an aggregate value (based on the closing price of the Shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to Shareholders' approval in advance in a general meeting.

The Board shall not offer the grant of any option to any Eligible Person after inside information has come to its knowledge until it has announced the information pursuant to the requirements of the Listing Rules. In particular, no option shall be granted during the period commencing one month immediately preceding the earlier of the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and the deadline for the Company to publish an announcement of its results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcements provided that no option may be granted during any period of delay in publishing a results announcement.

Subject to the requirement of the Listing Rules, the exercise period of the share options granted is determinable by the Directors, which period may commence from the date of the offer of the share options, and ends on a date which is not later than ten years from the date of grant of the share options subject to the provisions for early termination thereof. There is no minimum period for which an option must be held before it can be exercised. Participants of the Share Option Scheme are required to pay the Company HK\$1.0 upon acceptance of the grant on or before 28 days after the offer date.

The exercise price of the share options is determinable by the Directors, but shall not be less than the highest of (i) the closing price of the Shares as quoted on the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the date of the offer for the grant, which must be a business day; (ii) the average closing price of the Shares as quoted on the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of offer; and (iii) the nominal value of a Share.

REPORT OF DIRECTORS

SHARE OPTION SCHEME (Continued)

The details of share options granted under the Share Option Scheme as at 31 December 2024 are set out as follows:

Name	Date of grant	Vesting date	Number of share options					Outstanding as at 31 December 2024
			Outstanding as at 1 January 2024	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	
Mr. Chen Rongxin (a former executive Director)	7 September 2018	7 September 2018	10,000,000 (Note 1)	-	-	-	-	10,000,000
Mr. Zhang Xiongfeng (a non-executive Director)	7 September 2018	7 September 2018	10,000,000 (Note 1)	-	-	-	-	10,000,000
Employees in aggregate	7 September 2018	7 September 2018	10,000,000 (Note 1)	-	-	-	-	10,000,000
Other eligible participants in aggregate	7 September 2018	7 September 2018	70,000,000 (Note 1)	-	-	-	-	70,000,000
Total			100,000,000	-	-	-	-	100,000,000

Note:

- The exercise price of these options is HK\$0.67 and the exercise period is from 7 September 2018 to 25 May 2025, both dates inclusive. The closing price of the Shares immediately preceding the date of grant of these options was HK\$0.70. The Company received HK\$1.0 from each of the grantees of these options upon acceptance of the options granted.

The number of Shares that may be issued in respect of options granted under the Share Option Scheme represented approximately 6.78% of the weighted average number of Shares for the year ended 31 December 2024.

From 1 January 2023, the Company will rely on the transitional arrangements provided by the Stock Exchange for share schemes should it decide to grant any share options. The Company will amend the terms of the Share Option Scheme or consider to adopt a new share option scheme in compliance with the new Chapter 17 of the Listing Rules as and when appropriate.

Save and except the Share Option Scheme, the Company did not have any other share scheme during the year ended 31 December 2024.

EMOLUMENT POLICY

The Remuneration Committee was set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors and senior management and comparable market practices.

REPORT OF DIRECTORS

The emolument policy of the employees of the Group is set up by the Board on the basis of their merit, qualifications and competence.

The Company has adopted the Share Option Scheme, of which share options may be granted to Eligible Persons. Details of the Share Option Scheme are set out in the paragraph headed “Share Option Scheme” in this report of Directors and note 34 to the consolidated financial statements in this annual report.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and the five highest paid individuals are set out in notes 11 and 12 to the consolidated financial statements in this annual report.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

Save as disclosed in the section headed “Directors and Senior Management” in this annual report, there was no change to any of the information required to be disclosed in relation to any Director pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules for the year ended 31 December 2024.

DIRECTORS AND CHIEF EXECUTIVE’S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS

As at 31 December 2024, none of the Directors and chief executive of the Company had or was deemed to have any interests or short position in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they had taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this annual report, during the year under review, no rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company were granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

REPORT OF DIRECTORS

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PARTIES IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2024, so far as the Directors and chief executive of the Company were aware, the following persons and corporations (excluding the directors and chief executive of the Company) had interests or short positions in any of the Shares or underlying Shares which were required to be notified to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO.

(i) Substantial shareholder's long position in the Shares

Name of Shareholder	Capacity/ nature of interest	Number of Shares held	Approximate percentage of issued share capital (Note 1)
Praise Treasure Limited	Beneficial owner	753,040,000	51.05%
Mr. Chen Yenfei	Interest of a controlled corporation	753,040,000	51.05%
	Beneficial owner	<u>13,560,000</u>	<u>0.92%</u>
		<u>766,600,000</u>	<u>51.97%</u>

(ii) Other persons' long positions in the Shares

Name of Shareholder	Capacity/ nature of interest	Number of Shares held	Approximate percentage of issued share capital (Note 1)
Win Win Stable No. 3 Fund SP	Person having a security interest in shares	753,040,000	51.05%
Zhongtai International Asset Management (Singapore) Pte. Limited	Investment manager	753,040,000	51.05%
Osman Mohammed Arab (Note 2)	Agent	753,040,000	51.05%
Lai Wing Lun (Note 2)	Agent	753,040,000	51.05%

Notes:

1. The total number of Shares in issue as at 31 December 2024 (i.e. 1,474,912,908 Shares) has been used for the calculation of the approximate percentage of interest.

REPORT OF DIRECTORS

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PARTIES IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY *(Continued)*

(ii) Other persons' long positions in the Shares *(Continued)*

Notes: (Continued)

2. 753,040,000 Shares (the "Charged Shares") were pledged by Praise Treasure Limited in favour of an original chargee whose rights have been assigned to Zhongtai International Asset Management (Singapore) Pte. Limited (for the account and on behalf of Win Win Stable No.3 Fund SP), and on 27 July 2022, Mr. Osman Mohammed Arab and Mr. Lai Wing Lun of RSM Corporate Advisory (Hong Kong) Limited were appointed as joint and several receivers and managers over the Charged Shares. The Charged Shares represent approximately 51.05% of the issued share capital of the Company as at the date of this annual report.

Save as disclosed above, as at 31 December 2024, the Company has not been notified by any persons (other than the Directors or chief executive of the Company) who had interests or short positions in any of the Shares or underlying Shares which were required to be notified to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2024, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands that would oblige the Company to offer new Shares on a pro rata basis to the existing shareholders.

COMPETING BUSINESS

None of the Directors had any interest in any competing business with the Company or any of its subsidiaries during the year ended 31 December 2024. Each of Mr. Chen Yenfei and Praise Treasure Limited (the controlling shareholders (within the meaning of the Listing Rules) of the Company) has confirmed to the Company that he/it has complied with the non-compete undertaking given by them to the Company on 26 May 2015. The independent non-executive Directors have reviewed the status of compliance and enforcement of the non-compete undertaking and confirmed that all the undertakings thereunder have been complied with throughout the year ended 31 December 2024.

CONNECTED TRANSACTIONS

A summary of the material related party transactions entered into by the Group during the year ended 31 December 2024 is contained in note 35 to the consolidated financial statements in this annual report. The transactions summarised in such note do not fall under the definition of "connected transactions" or "continuing connected transactions" under Chapter 14A of the Listing Rules. The Directors confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

REPORT OF DIRECTORS

CHARITABLE DONATIONS

There was no charitable donations made by the Group during the year ended 31 December 2024 (2023: Nil).

AUDIT COMMITTEE

The audit committee of the Board has reviewed with the management and auditor of the Company the accounting principles and practices adopted by the Group, and discussed the internal controls and financial reporting matters, including a review of the annual financial statements for the year ended 31 December 2024.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 9 to 24 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this annual report, there was a sufficient prescribed public float of the issued share of the Company required under the Listing Rules.

POSSIBLE TRANSACTION PURSUANT TO RULE 3.7 OF THE TAKEOVERS CODE

As disclosed in the Company's announcement dated 3 August 2022, the Board has been informed of the appointment of joint and several receivers and managers of the ordinary shares of HK\$0.001 each in the Shares held by PTL, a controlling shareholder of the Company.

As informed by PTL, 753,040,000 Shares (the "Charged Shares") were pledged by PTL in favour of the original chargee whose rights have been assigned to Win Win International Strategic Investment Funds SPC for the account and on behalf of Win Win Stable No. 3 Fund SP (the "Chargee") to secure certain indebtedness of PTL, and on 27 July 2022, Mr. Osman Mohammed Arab and Mr. Lai Wing Lun of RSM Corporate Advisory (Hong Kong) Limited (the "Receivers") were appointed as joint and several receivers and managers over the Charged Shares, which represented approximately 51.05% of the issued share capital of the Company. For the purpose of the Code on Takeovers and Mergers (the "Takeovers Code"), the offer period commenced on 3 August 2022.

As announced by the Company on 8 March 2023, the Board has been advised by PTL that PTL was still in negotiations with the Chargee regarding settlement of the outstanding indebtedness owed by PTL to the Chargee. After making appropriate enquiries with the Receivers, the Receivers informed the Board that they have not identified a potential purchaser for the Charged Shares. As such, the Company considered that a bona fide offer was not imminent. The offer period under Rule 26.1 of the Takeovers Code was closed on 8 March 2023.

Please refer to the announcements of the Company dated 3 August 2022, 5 September 2022, 5 October 2022, 7 November 2022, 7 December 2022, 9 January 2023, 9 February 2023 and 8 March 2023 for details.

REPORT OF DIRECTORS

EVENTS AFTER THE REPORTING PERIOD

Except as disclosed in note 39(c) to the consolidated financial statements in this annual report, there was no significant events subsequent to the end of reporting period.

AMENDMENTS TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION

On 22 February 2024, the Company has adopted the second amended and restated memorandum and articles of association of the Company by way of special resolution at the annual general meeting in order to conform to the core shareholder protection standards set out in Appendix A1 of the Listing Rules and the applicable laws of the Cayman Islands. For further details, please refer to the announcement and the circular of the Company dated 22 January 2024.

CHANGE OF PRINCIPAL PLACE OF BUSINESS IN HONG KONG

The Company has changed its principal place of business in Hong Kong to Suites 2601–2603, 26/F, Shui On Centre, 6 – 8 Harbour Road, Wanchai, Hong Kong with effect from 19 February 2024.

REPORT OF DIRECTORS

UPDATE ON THE DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes of information of the Directors during the year ended 31 December 2023 are set out below:

Mr. Khor Khie Liem Alex was appointed as an independent non-executive director of JLOGO Holdings Limited, a company listed on GEM Board of the Stock Exchange with effect from April 2024.

AUDITORS

The consolidated financial statements of the Company for the year ended 31 December 2024 have been audited by Forvis Mazars CPA Limited.

Forvis Mazars CPA Limited shall retire and being eligible, offer themselves for re-appointment, and a resolution to this effect shall be proposed at the forthcoming AGM.

On behalf of the Board
Pa Shun International Holdings Limited
Yuan Hongbing
Chairman and Executive Director

Hong Kong, 30 April 2025

INDEPENDENT AUDITOR'S REPORT



Forvis Mazars CPA Limited

富睿瑪澤會計師事務所有限公司

42nd Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong
香港灣仔港灣道18號中環廣場42樓

Tel 電話: (852) 2909 5555

Fax 傳真: (852) 2810 0032

Email 電郵: info.hk@forvismazars.com

Website 網址: www.forvismazars.com/hk

To the members of
Pa Shun International Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Pa Shun International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 52 to 127, which comprise the consolidated statement of financial position at 31 December 2024, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group at 31 December 2024, and of its financial performance and cash flows for the year then ended in accordance with HKFRS Accounting Standards as issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") as issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention in the "Going concern" section in Note 2 to the consolidated financial statements, the Group incurred a loss of approximately RMB15,313,000 and had net cash used in operating activities of approximately RMB1,676,000 for the year ended 31 December 2024 and the Group had net liabilities of approximately RMB136,036,000 at 31 December 2024 which included the repayment obligations under the Scheme of Arrangement of approximately RMB163,699,000 as disclosed in Note 26 to the consolidated financial statements. At 31 December 2024, the Group had cash and cash equivalents of approximately RMB15,972,000. These conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. In light of all the measures and arrangements detailed in Note 2 to the consolidated financial statements, the directors of the Company are of the opinion that the Group will be able to finance its future working capital and financial requirements. Our opinion is not modified in respect of this matter.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the "Material Uncertainty Related to Going Concern" section of our report, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
<p>Impairment assessment of the property development project</p> <p>Refer to Notes 2, 3 and 17 to the consolidated financial statements.</p> <p>At 31 December 2024, the Group had made payments amounted to approximately RMB185,797,000 to Chengdu Yiming Investment Management Company Limited ("Chengdu Yiming") in connection with a property development project of a logistic centre in the People's Republic of China, of which impairment loss amounted to approximately RMB142,297,000 was recognised.</p> <p>The management of the Group engaged an independent professional valuer to assess the recoverable amount of the property development project. The recoverable amount was determined using residual method based on the development potential of the properties as if it was completed in accordance with the existing development proposal at the date of valuation taken into consideration of the estimated market price and allowance of profit required for the developer as well as time factor less cost of disposal.</p> <p>The assessment of the recoverable amount is inherently subjective as it involves the exercise of significant management's judgement and estimation.</p> <p>As set out in Note 17 to the consolidated financial statements, the management of the Group concluded that the recoverable amount of the property development project was lower than its carrying amount and therefore, a further impairment loss of approximately RMB4,500,000 was recognised in profit or loss for the year ended 31 December 2024.</p> <p>We have identified the impairment assessment of the property development project as a key audit matter due to the significance of the amounts involved, and the use of judgement and estimation made by the management of the Group.</p>	<p>Our key audit procedures, among others, included:</p> <ul style="list-style-type: none"> evaluating the independent professional valuer's competence, capabilities and objectivity; understanding the valuation methodology used by the independent professional valuer to estimate the recoverable amount; assessing the reasonableness of the valuation methodology, the key inputs, including the recent market transaction prices of comparable properties, estimated development cost and allowance of profit required for the developer, adjustments and assumptions adopted by the independent professional valuer based on our knowledge of the business and industry; and considering the adequacy of the Group's disclosure in respect of the impairment assessment.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
<p>Expected credit loss ("ECL") assessment of trade and other receivables</p> <p>Refer to Notes 2, 3, 19 and 34 to the consolidated financial statements.</p> <p>At 31 December 2024, the Group had trade and other receivables with the net carrying amount of approximately RMB29,629,000 (after the loss allowance for ECL of approximately RMB313,828,000). The management of the Group measures ECL in accordance with HKFRS 9 (in which the Group applies simplified approach based on lifetime ECL for trade receivables). In measuring the expected loss rates, the management of the Group assesses whether there are any significant changes in payment profiles and risk of default, and takes into consideration the current and forward-looking information, to adjust the expected loss rates.</p> <p>We have identified ECL assessment of trade and other receivables as a key audit matter due to the significance of the amounts involved, and the use of judgement and estimation made by the management of the Group.</p>	<p>Our key audit procedures, among others, included:</p> <ul style="list-style-type: none"> obtaining an understanding of the Group's internal control and assessment processes for ECL assessment of trade and other receivables; assessing the reasonableness of the ECL methodology and the use of forward-looking information applied by the management of the Group in determining the loss allowance for ECL; testing and assessing, on a sample basis, whether the loss allowance for ECL was properly supported by considering the debtors' ageing analysis, settlement records and available forward-looking information; and considering the adequacy of the Group's disclosure in respect of the ECL assessment.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all the information included in this annual report but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs Accounting Standards as issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- Conclude on the appropriateness of the use of the going concern basis of accounting by the directors of the Company and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Forvis Mazars CPA Limited
Certified Public Accountants
Hong Kong, 30 April 2025

The engagement director on the audit resulting in this independent auditor's report is:

Lam Kwok Sun

Practising Certificate Number: P08281

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2024

	NOTES	2024 RMB'000	2023 RMB'000
Revenue	4(a)	86,554	129,430
Cost of goods sold		(69,496)	(100,147)
Gross profit		17,058	29,283
Gain on restructuring of the financial liabilities	26	17,571	—
Other income, net	5	1,461	2,776
Selling and distribution expenses		(7,988)	(7,246)
Administrative and other operating expenses		(14,451)	(23,597)
Reversal of loss allowance for expected credit losses ("ECL") on trade receivables, net	19	3,805	20,235
(Provision for) Reversal of loss allowance for ECL on other receivables	19	(4,999)	2,660
Impairment loss on property development project	17	(4,500)	(9,000)
(Impairment loss) Reversal of impairment loss on prepayments and deposits paid, net	20	(8,163)	1,230
Finance costs	6	(14,800)	(12,933)
(Loss) Profit before tax	7	(15,006)	3,408
Income tax expenses	8	(307)	(1,058)
(Loss) Profit for the year attributable to equity holders of the Company		(15,313)	2,350
(Loss) Earnings per share (expressed in RMB cents)			
Basic	12	(1.04)	0.16
Diluted	12	(1.04)	0.16

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2024

	2024 RMB'000	2023 RMB'000
(Loss) Profit for the year	(15,313)	2,350
Other comprehensive (loss) income:		
<i>Item that will not be reclassified to profit or loss:</i>		
Exchange differences on translation of the Company's financial statements to presentation currency	(2,779)	10,027
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of functional currency to presentation currency	(1,845)	(12,956)
Other comprehensive loss for the year	(4,624)	(2,929)
Total comprehensive loss for the year attributable to the equity holders of the Company	(19,937)	(579)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2024

	NOTES	2024 RMB'000	2023 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	29,460	32,397
Right-of-use assets	14	1,821	1,872
Interests in associates	15	—	—
Intangible assets	16	6	26
Property development project	17	43,500	48,000
		74,787	82,295
CURRENT ASSETS			
Inventories	18	37,834	5,378
Trade and other receivables	19	29,629	37,017
Prepayments and deposits paid	20	21,388	65,329
Amounts due from a related party	35(b)	36	36
Cash and cash equivalents	21	15,972	16,511
		104,859	124,271
CURRENT LIABILITIES			
Trade and other payables	22	79,744	130,169
Bank borrowings	23	11,380	7,160
Amount due to a shareholder	35(b)	804	804
Amounts due to related parties	35(b)	396	1,132
Corporate bonds payable	24	—	83,473
Deferred income – government grant	28	512	512
Other borrowings	25	3,700	24,418
Repayment obligations under the Scheme of Arrangement	26	6,894	—
Income tax payable		98	588
		103,528	248,256
NET CURRENT ASSETS (LIABILITIES)		1,331	(123,985)
TOTAL ASSETS LESS CURRENT LIABILITIES		76,118	(41,690)
NON-CURRENT LIABILITIES			
Deferred income – government grant	28	20,981	21,493
Deferred tax liabilities	27	2,125	1,997
Other payables	22	3,296	—
Other borrowings	25	28,947	50,919
Repayment obligations under the Scheme of Arrangement	26	156,805	—
		212,154	74,409
NET LIABILITIES		(136,036)	(116,099)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION*At 31 December 2024*

	NOTES	2024 RMB'000	2023 RMB'000
Capital and reserves			
Share capital	29	1,216	1,216
Reserves	31	(137,252)	(117,315)
NET DEFICIT		(136,036)	(116,099)

The consolidated financial statements on pages 52 to 127 were approved and authorised for issue by the Board of Directors on 30 April 2025 and signed on its behalf by

Yuan Hongbing
Director

Li Yan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the year ended 31 December 2024*

	Attributable to equity owners of the Company							Total RMB'000
	Share capital RMB'000 (Note 29)	Share premium RMB'000 (Note 31(a))	Statutory reserve RMB'000 (Note 31(b))	Share option reserve RMB'000 (Note 31(c))	Exchange reserve RMB'000 (Note 31(d))	Other reserve RMB'000 (Note 31(e))	Accumulated losses RMB'000	
At 1 January 2023	1,216	691,882	33,143	11,456	(15,597)	(28,150)	(809,470)	(115,520)
Profit for the year	-	-	-	-	-	-	2,350	2,350
Other comprehensive income (loss):								
<i>Item that may be reclassified to profit or loss:</i>								
Exchange differences on translation of the Company's financial statements to presentation currency	-	-	-	-	10,027	-	-	10,027
<i>Item that may be reclassified subsequently to profit or loss:</i>								
Exchange differences on translation of functional currency to presentation currency	-	-	-	-	(12,956)	-	-	(12,956)
Total comprehensive (loss) income for the year	-	-	-	-	(2,929)	-	2,350	(579)
At 31 December 2023	1,216	691,882	33,143	11,456	(18,526)	(28,150)	(807,120)	(116,099)
At 1 January 2024	1,216	691,882	33,143	11,456	(18,526)	(28,150)	(807,120)	(116,099)
Loss for the year	-	-	-	-	-	-	(15,313)	(15,313)
Other comprehensive loss:								
<i>Item that may be reclassified to profit or loss:</i>								
Exchange differences on translation of the Company's financial statements to presentation currency	-	-	-	-	(2,779)	-	-	(2,779)
<i>Item that may be reclassified subsequently to profit or loss:</i>								
Exchange differences on translation of functional currency to presentation currency	-	-	-	-	(1,845)	-	-	(1,845)
Total comprehensive loss for the year	-	-	-	-	(4,624)	-	(15,313)	(19,937)
At 31 December 2024	1,216	691,882	33,143	11,456	(23,150)	(28,150)	(822,433)	(136,036)

CONSOLIDATED STATEMENT OF CASH FLOWS*For the year ended 31 December 2024*

	2024 RMB'000	2023 RMB'000
OPERATING ACTIVITIES		
(Loss) Profit before tax	(15,006)	3,408
Adjustments for:		
Depreciation of property, plant and equipment	3,027	2,872
Depreciation of right-of-use assets	51	405
Amortisation of intangible assets	20	30
Amortisation of government grant	(512)	(512)
Reversal of write-down (Write-down) of inventories	(1,891)	2,039
Impairment loss on property development project	4,500	9,000
Reversal of loss allowance for ECL on trade receivables, net	(3,805)	(20,235)
Provision for (Reversal of) loss allowance for ECL on other receivables	4,999	(2,660)
Provision for (Reversal of) impairment loss on prepayments and deposits paid, net	8,163	(1,230)
Corporate bonds payable waived	–	(905)
Write-off of property, plant and equipment	9	335
Gain on restructuring of the financial liabilities	(17,571)	–
Bank interest income	(11)	(3)
Finance costs	14,800	12,933
Exchange differences, net	4,727	3,965
Operating cash flows before movements in working capital	1,500	9,442
Changes in working capital:		
Inventories	(30,565)	(466)
Trade and other receivables	6,194	3,006
Prepayments and deposits paid	35,778	(56,986)
Trade and other payables	(13,914)	2,299
Cash used in operations	(1,007)	(42,705)
Income tax paid	(669)	(42)
Net cash used in operating activities	(1,676)	(42,747)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(99)	(68)
Bank interest received	11	3
Net cash used in investing activities	(88)	(65)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2024

	NOTES	2024 RMB'000	2023 RMB'000
FINANCING ACTIVITIES			
Proceeds from bank loans	32(b)	11,380	7,160
Repayments of bank loans	32(b)	(7,160)	(4,500)
Proceeds from other borrowings	32(b)	6,619	49,635
Repayments of other borrowings	32(b)	(8,500)	–
Repayments of corporate bonds payable	32(b)	–	(1,809)
Payment of lease liabilities	32(b)	–	(377)
(Repayment of) Advances from related parties	32(b)	(736)	516
Interest paid		(377)	(499)
Deposits paid to related to the Scheme of Arrangement		–	7,298
Net cash generated from financing activities		1,226	57,424
Net (decrease) increase in cash and cash equivalents		(538)	14,612
Cash and cash equivalents at beginning of the reporting period		16,511	1,901
Effect on exchange rate changes		(1)	(2)
Cash and cash equivalents at end of the reporting period, represented by bank balances and cash	21	15,972	16,511

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

1. GENERAL INFORMATION

Pa Shun International Holdings Limited (the “Company”, together with its subsidiaries referred to as the “Group”) was incorporated in the Cayman Islands on 3 May 2011 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 19 June 2015. The address of the Company’s registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company’s principal place of business is Suites 2601–2603, 26/F, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong.

The principal activity of the Company is investment holding. Details of the principal activities of the Company’s subsidiaries are set out in Note 37 to the consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements have been prepared in accordance with HKFRS Accounting Standards, which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

The functional currency of the Company is Hong Kong Dollars (“HK\$”). The consolidated financial statements of the Company are presented in Renminbi (“RMB”) as the functional currency of the Group’s major operating subsidiaries is RMB. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

The consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2023 consolidated financial statements except for the adoption of the following new/revised HKFRS Accounting Standards that are relevant to the Group and effective from the current year as set out below.

Adoption of new/revised HKFRS Accounting Standards

The Group has applied, for the first time, the following new/revised HKFRS Accounting Standards that are relevant to the Group:

Amendments to HKAS 1	Classification of Liabilities as Current or Non-current
Amendments to HKAS 1	Non-current Liabilities with Covenants
Amendments to HK Interpretation 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Adoption of new/revised HKFRS Accounting Standards (Continued)

Amendments to HKAS 1: Classification of Liabilities as Current or Non-current

The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments include clarifying the classification requirements for debt a company might settle by converting into equity.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

Amendments to HKAS 1: Non-current Liabilities with Covenants

The amendments specify that covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Instead, the amendments require a company to disclose information about these covenants in the notes to the consolidated financial statements.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

Amendments to HK Interpretation 5: Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

This Interpretation is revised as a consequence of the above Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

The adoption of the amendments on this interpretation does not have any significant impact on the consolidated financial statements.

Amendments to HKAS 7 and HKFRS 7: Supplier Finance Arrangements

The amendments introduce new disclosure requirements to enhance the transparency of supplier finance arrangements and their effects on an entity's liabilities, cash flows and exposure to liquidity risk.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

Amendments to HKFRS 16: Lease Liability in a Sale and Leaseback

The amendments require a seller-lessee to subsequently determine lease payments arising from a sale and leaseback in a way that it does not recognise any amount of the gain or loss that relates to the right of use it retains. The new requirements do not prevent a seller-lessee from recognising in profit or loss any gain or loss relating to the partial or full termination of a lease.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Future changes in HKFRS Accounting Standards

At the date of authorisation of the consolidated financial statements, the HKICPA has issued the following new/revised HKFRS Accounting Standards that are not yet effective for the current year, which the Group has not early adopted.

Amendments to HKAS 21	Lack of Exchangeability ^[1]
Amendments to HKFRS 9 and HKFRS 7	Amendments to the Classification and Measurement of Financial Instruments ^[2]
Annual Improvements to HKFRS Accounting Standards	Volume 11 ^[2]
Amendments to HKFRS 9 and HKFRS 7	Contracts Referencing Nature-dependent Electricity ^[2]
HKFRS 18	Presentation and Disclosure in Financial Statements ^[3]
HKFRS 19	Subsidiaries without Public Accountability: Disclosures ^[3]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ^[4]

^[1] Effective for annual periods beginning on or after 1 January 2025

^[2] Effective for annual periods beginning on or after 1 January 2026

^[3] Effective for annual periods beginning on or after 1 January 2027

^[4] The effective date to be determined

The directors of the Company do not anticipate that the adoption of the new/revised HKFRS Accounting Standards in future periods will have any material impact on the Group's consolidated financial position or performance.

Going concern

In preparing the consolidated financial statements, the management of the Group have given careful consideration to the future liquidity of the Group in light of the fact that the Group incurred a loss of approximately RMB15,313,000 and had net cash used in operating activities of approximately RMB1,676,000 for the year ended 31 December 2024 and the Group had net liabilities of approximately RMB136,036,000 at 31 December 2024 which included the repayment obligations under the Scheme of Arrangement of approximately RMB163,699,000 as disclosed in Note 26 to the consolidated financial statements. At 31 December 2024, the Group had cash and cash equivalents of approximately RMB15,972,000. The above events and conditions indicate that the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern, and, therefore, that the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

In view of the above circumstances, the management of the Group has given careful consideration to the future liquidity and performance of the Group, the available sources of financing and has considered the Group's cash flow projection that covered a period of not less than twelve months from 31 December 2024 and to assess whether the Group will have sufficient financial resources to continue as a going concern. Certain plans and measures have been taken to mitigate the liquidity position and to improve the Group's financial position which include, but are not limited to the followings:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Going concern (Continued)

1. The Group have completed the scheme of arrangement (the “Scheme of Arrangement”) for the restructuring of its overall indebtedness position (as detailed in Note 26 to the consolidated financial statements) that is aimed at alleviating the liquidity pressure and improving financial position of the Group. All necessary statutory, regulatory, and creditors’ approvals in respect of the Scheme of Arrangement had been obtained and the Scheme of Arrangement became effective on 12 March 2024.

Under the repayment obligations under the Scheme of Arrangement of approximately RMB163,699,000 that are due to the scheme creditors, the Group has to make annual cash payments from years 2024 to 2028 which comprise a cash amount which shall be the higher of (i) HK\$5 million for the year 2024 and HK\$10 million annually for the years 2025 to 2028; and (ii) a cash amount representing the relevant proportion of the audited consolidated net profits of the Company for the relevant financial year. If the aggregate of the repayments is insufficient to settle all the repayment obligations under the Scheme of Arrangement, the Company shall allot and issue new shares to the scheme creditors, subject to the approval of the shareholders of the Company (if applicable) and the Stock Exchange and the requirements of the Listing Rules. The exact number of scheme shares to be issued and the issue price per share are to be determined after all the repayment have been settled in 2028;

2. The management of the Group will closely monitor the financial position of the Group and the directors of the Company will make every effort to (a) generate adequate cash flows from its operations; and (b) secure funds as may be necessary by pledge of the Group’s assets including but not limited to the property, plant and equipment, right-of-use assets and the property development project and issue of new shares as may be necessary to finance the business operations of the Group and repayment of existing debts when they fall due in the foreseeable future;
3. The Group is implementing measures to tighten cost controls over various operating expenses and to identify and secure new business opportunity in order to enhance its profitability and to improve the cash flow from its operation in future;
4. The Group continues to negotiate/seek opportunities with the financial institutions and/or individuals for the renewal of existing/inception of the new financing arrangement to meet the Group’s working capital and financial requirements in the future; and
5. The Group is continuously expanding its product portfolio to meet new customer demands and enhance the Group’s market competitiveness.

Based on the latest information available, the directors of the Company are of the opinion that it is appropriate to prepare the consolidation financial statements on a going concern basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Going concern (Continued)

Notwithstanding the above, material uncertainty exists as to whether the management of the Group will be able to implement the abovementioned plans and measures. Whether the Group will be able to continue as a going concern will depend upon the Group's ability to obtain adequate extra financing and/or generate sufficient cash flows from operation.

Should the above measures not be able to implement successfully, the Group may not have sufficient funds to operate as a going concern, in which case, adjustments might have to be made to the carrying values of the Group's assets to their recoverable amounts, to reclassify the non-current assets and non-current liabilities as current assets and current liabilities, and to provide for any further liabilities which might arise. The effect of these adjustments has not been reflected in the consolidated financial statements.

Basis of measurement

The measurement basis used in the preparation of these consolidated financial statements is historical cost.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Company using consistent accounting policies.

All intra-group balance, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. The results of subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

Allocation of total comprehensive income

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company. Total comprehensive income is attributed to the owners of the Company and the non-controlling interest even if this results in the non-controlling interest having a deficit balance.

Changes in ownership interest

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest determined at the date when control is lost and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests at the date when control is lost. The amounts previously recognised in other comprehensive income in relation to the disposed subsidiary are accounted for on the same basis as would be required if the parent had directly disposed of the related assets or liabilities. Any investment retained in the former subsidiary and any amounts owed by or to the former subsidiary are accounted for as a financial asset, associate, joint venture or others as appropriate from the date when control is lost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Subsidiaries

A subsidiary is an entity controlled by the Group. The Group controls an entity when the Group (i) has power over the entity, (ii) the Group is exposed, or has rights, to variable returns from its involvement with the entity and (iii) has the ability to use its power to affect those returns. The Group reassesses whether or not it controls an entity if facts and circumstances indicated that there were changes to one or more of the aforementioned three elements of control.

In the Company's statement of financial position which is presented within these notes, investments in subsidiaries are stated at cost less impairment losses. The carrying amount of the investments are reduced to its recoverable amount on an individual basis, if it is higher than the recoverable amount. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

The Group's investment in associate is accounted for under the equity method of accounting, except when the investment or a portion thereof is classified as held for sale. Under the equity method, the investment is initially recorded at cost and adjusted thereafter for the post-acquisition changes in the Group's share of the investee's net assets and any impairment loss relating to the investment. Except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee, the Group discontinues recognising its share of further losses when the Group's share of losses of the investee equals or exceeds the carrying amount of its interest in the investee, which includes any long term interests that, in substance, form part of the Group's net investment in the investee.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investees, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the Company's statement of financial position which is presented within these notes, an investment in associates is stated at cost less impairment loss. The carrying amount of the investment is reduced to its recoverable amount on an individual basis, if it is higher than the recoverable amount. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment, other than construction in progress, over their estimated useful lives as set out below from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method. Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis and depreciated separately:

Buildings	20 – 30 years
Leasehold improvements	The shorter of the lease term and their useful life of 3 – 10 years
Machinery and equipment	5 – 10 years
Furniture and office equipment	3 – 10 years
Motor vehicles	4 – 10 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

Construction in progress represents items of leasehold improvements under construction, which is stated at cost less any impairment losses. Cost comprises direct costs of construction during the construction period. Construction in progress is reclassified to the appropriate category of property, plant and equipment when the asset is substantially completed and ready for its intended use. No depreciation is provided in respect of construction in progress.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful lives are finite) and impairment losses, if any. Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over their estimated useful lives from the date they are available for use and their estimated useful lives are as follows:

Patent	14 – 20 years
Computer software	5 – 20 years

Financial instruments

Financial assets

Recognition and derecognition

Financial assets are recognised when and only when the Company becomes a party to the contractual provisions of the instruments and on a trade date basis.

A financial asset is derecognised when and only when (i) the Company's contractual rights to future cash flows from the financial asset expire or (ii) the Company transfers the financial asset and either (a) the Company transfers substantially all the risks and rewards of ownership of the financial asset, or (b) the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but it does not retain control of the financial asset.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises the financial asset to the extent of its continuing involvement and an associated liability for amounts it may have to pay.

Financial assets (except for trade receivables without a significant financing component) are initially recognised at their fair value plus, in the case of financial assets not carried at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial assets. Such trade receivables are initially measured at their transaction price.

On initial recognition, a financial asset is classified as (i) measured at amortised cost; (ii) debt investment measured at fair value through other comprehensive income; (iii) equity investment measured at fair value through other comprehensive income; or (iv) measured at FVPL.

The classification of financial assets at initial recognition depends on the Company's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing them, in which case all affected financial assets are reclassified on the first day of the first annual reporting period following the change in the business model.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVPL:

- (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses arising from impairment, derecognition or through the amortisation process are recognised in profit or loss.

The Company's financial assets at amortised cost include trade and other receivables, amount due from a related party and cash and cash equivalents.

Financial liabilities

Recognition and derecognition

Financial liabilities are recognised when and only when the Group becomes a party to the contractual provisions of the instruments.

A financial liability is derecognised when and only when the liability is extinguished, that is, when the obligation specified in the relevant contract is discharged, cancelled or expires.

Classification and measurement

Financial liabilities are initially recognised at their fair value plus, in the case of financial liabilities not carried at FVPL, transaction costs that are direct attributable to the issue of the financial liabilities.

The Group's financial liabilities include trade and other payables, bank borrowings, other borrowings, corporate bonds payable, repayment obligations under the Scheme of Arrangement, amount due to a shareholder and amounts due to related parties. All financial liabilities, except for financial liabilities at FVPL, are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

Financial liabilities at FVPL include financial liabilities held for trading, financial liabilities designated upon initial recognition as at FVPL and financial liabilities that are contingent consideration of an acquirer in a business combination to which HKFRS 3 applies. They are carried at fair value, with any resultant gain and loss (including interest expenses) recognised in profit or loss, except for the portion of fair value changes of financial liabilities designated at FVPL that are attributable to the credit risk of the liabilities which is presented in other comprehensive income unless such treatment would create or enlarge an accounting mismatch in profit or loss. The amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities (Continued)

A financial liability is classified as held for trading if it is:

- (i) incurred principally for the purpose of repurchasing it in the near term;
- (ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking on initial recognition; or
- (iii) a derivative that is not a financial guarantee contract or not a designated and effective hedging instrument.

Financial liabilities are designated at initial recognition as at FVPL only if:

- (i) the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on different bases;
- (ii) they are part of a group of financial liabilities or financial assets and financial liabilities that are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or
- (iii) they contain one or more embedded derivatives, in which case the entire hybrid contract may be designated as a financial liability at FVPL, except where the embedded derivatives do not significantly modify the cash flows or it is clear that separation of the embedded derivatives is prohibited.

Derivatives embedded in a hybrid contract with a host that is not an asset within the scope of HKFRS 9 are treated as separate derivatives when they meet the definition of a derivative, their economic characteristics and risks are not closely related to those of the host, and the hybrid contract is not measured at FVPL.

Impairment of financial assets

The Group recognises loss allowances for ECL on financial assets that are measured at amortised cost. Except for the specific treatments as detailed below, at each reporting date, the Group measures a loss allowance for a financial asset at an amount equal to the lifetime ECL if the credit risk on that financial asset has increased significantly since initial recognition. If the credit risk on a financial asset has not increased significantly since initial recognition, the Group measures the loss allowance for that financial asset at an amount equal to 12-month ECL.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment of financial assets (Continued)

Measurement of ECL

ECL is a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument.

For financial assets, a credit loss is the present value of the difference between the contractual cash flows that are due to an entity under the contract and the cash flows that the entity expects to receive.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument while 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Where ECL is measured on a collective basis, the financial instruments are grouped based on the following one or more shared credit risk characteristics:

- (i) Nature of financial instruments (i.e. the Group's trade receivables are each assessed as a separate group. Amount due from a related party and other receivables are assessed for ECL on an individual basis);
- (ii) Past-due status;
- (iii) Nature, size and industry of debtors; and
- (iv) External credit ratings where available.

The grouping is regularly reviewed by the management of the Group to ensure that the constituents of each group continue to share similar credit risk characteristics.

The Group recognises a loss allowance for ECL in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of accounts receivables where the corresponding adjustment is recognised through a loss allowance account.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that the Group may not receive the outstanding contractual amounts in full if the financial instrument that meets any of the following criteria.

- (i) information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group); or
- (ii) there is a breach of financial covenants by the counterparty.

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment of financial assets (Continued)

Assessment of significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. In particular, the following information is taken into account in the assessment:

- (i) the debtor's failure to make payments of principal or interest on the due dates;
- (ii) an actual or expected significant deterioration in the financial instrument's external or internal credit rating (if available);
- (iii) an actual or expected deterioration in the operating results of the debtor; and
- (iv) actual or expected changes in the technological, market, economic or legal environment that have or may have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial instrument has increased significantly since initial recognition when contractual payments are more than 30 days past due, except for the receivables for which the Group has reasonable and supportable information to demonstrate otherwise.

Notwithstanding the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date.

Low credit risk

A financial instrument is determined to have low credit risk if:

- (i) it has a low risk of default;
- (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and
- (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group's cash at banks and on hand are determined to have low credit risk.

Simplified approach of ECL

For trade receivables, the Group applies a simplified approach in calculating ECL. The Group recognises a loss allowance based on lifetime ECL at each reporting date and has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment of financial assets (Continued)

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- (e) the disappearance of an active market for that financial asset because of financial difficulties; or
- (f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Write-off

The Group writes off a financial asset when the Group has no reasonable expectations of recovering the contractual cash flows on a financial asset in its entirety or a portion thereof. The Group has a policy of writing off the gross carrying amount based on historical experience of recoveries of similar assets. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities under the Group's procedures for recovery of amounts due, taking into account legal advice if appropriate. Any subsequent recovery is recognised in profit or loss.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. For classification in the consolidated statement of financial position, cash equivalents represent assets similar in nature to cash and which are not restricted as to use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue from contracts with customers within HKFRS 15

The Group is engaged in pharmaceutical distribution and manufacture of pharmaceutical products sale to external parties in the PRC.

Identification of performance obligations

At contract inception, the Company assesses the goods promised in a contract with a customer and identifies as a performance obligation each promise to transfer to the customer either:

- (a) a good (or a bundle of goods) that is distinct; or
- (b) a series of distinct goods that are substantially the same and that have the same pattern of transfer to the customer.

A good that is promised to a customer is distinct if both of the following criteria are met:

- (a) the customer can benefit from the good either on its own or together with other resources that are readily available to the customer (i.e. the good is capable of being distinct); and
- (b) the Group's promise to transfer the good to the customer is separately identifiable from other promises in the contract (i.e. the promise to transfer the good is distinct within the context of the contract).

Timing of revenue recognition

Revenue is recognised when (or as) the Group satisfies a performance obligation by transferring a promised good (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

The Group transfers control of a good over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- (a) the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- (b) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- (c) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If a performance obligation is not satisfied over time, the Group satisfies the performance obligation at a point in time when the customer obtains control of the promised asset. In determining when the transfer of control occurs, the Group considers the concept of control and such indicators as legal title, physical possession, right to payment, significant risks and rewards of ownership of the asset, and customer acceptance.

Sales of pharmaceutical products is recognised at a point in time at which the customer obtains the control of the promised asset, which generally coincides with the time when the goods are delivered to customers and the title is passed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Transaction price: significant financing components

When the contract contains a significant financing component (i.e. the customer or the Group is provided with a significant benefit of financing the transfer of goods or services to the customer), in determining the transaction price, the Group adjusts the promised consideration for the effects of the time value of money. The effect of the significant financing component is recognised as an interest income or interest expense separately from revenue from contracts with customers in profit or loss.

The Group determines the interest rate that is commensurate with the rate that would be reflected in a separate financing transaction between the Group and its customer at contract inception by reference to, where appropriate, the interest rate implicit in the contract (i.e. the interest rate that discounts the cash selling price of the goods or services to the amount paid in advance or arrears), the prevailing market interest rates, the Group's borrowing rates and other relevant creditworthiness information of the customer of the Group.

The Group has applied the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for the effect of the significant financing component if the period of financing is one year or less.

Revenue from other sources

Rental income under operating leases is recognised when the assets are let out and on the straight-line basis over the lease term.

Interest income from financial assets is recognised using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the assets while it is applied to the amortised cost (i.e. the gross carrying amount net of loss allowance) in case of credit-impaired financial assets.

Contract assets and contract liabilities

If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the contract is presented as a contract asset, excluding any amounts presented as a receivable. Conversely, if a customer pays consideration, or the Group has a right to an amount of consideration that is unconditional, before the Group transfers a good or service to the customer, the contract is presented as a contract liability when the payment is made or the payment is due (whichever is earlier). A receivable is the Group's right to consideration that is unconditional or only the passage of time is required before payment of that consideration is due.

For a single contract or a single set of related contracts, either a net contract asset or a net contract liability is presented. Contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

For the business of sales of pharmaceutical products, it is common for the Group to receive from the customer the whole or some of the contractual payments before the goods are delivered (i.e. the timing of revenue recognition for such transactions). The Group recognises a contract liability until it is recognised as revenue. During that period, any significant financing components, if applicable, will be accounted for as the contract liability and will be expensed as accrued unless the interest expense is eligible for capitalisation. Contract liabilities in relation to advances from customers are recognised under "Trade and other payables".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The subsidiaries established in the PRC whose functional currency is Renminbi ("RMB"), the functional currency of the Company and its other subsidiaries is HK\$.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

The results and financial position of all the group entities, that have a functional currency different from the presentation currency ("foreign operations") are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented, are translated at the closing rate at the end of each reporting period;
- income and expenses for each statement of profit or loss are translated at average exchange rate;
- all resulting exchange differences arising from the above translation and exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised as a separate component of equity;
- on the disposal of a foreign operation, which includes a disposal of the Group's entire interest in a foreign operation and a disposal involving the loss of control over a subsidiary that includes a foreign operation, the cumulative amount of the exchange differences relating to the foreign operation that is recognised in other comprehensive income and accumulated in the separate component of equity is reclassified from equity to profit or loss when the gain or loss on disposal is recognised;
- on the partial disposal of the Group's interest in a subsidiary that includes a foreign operation which does not result in the Group losing control over the subsidiary, the proportionate share of the cumulative amount of the exchange differences recognised in the separate component of equity is re-attributed to the non-controlling interests in that foreign operation and are not reclassified to profit or loss; and
- on all other partial disposals, the proportionate share of the cumulative amount of exchange differences recognised in the separate component of equity is reclassified to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period of the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Impairment of other assets

At the end of each reporting period, the Group reviews internal and external sources of information to assess whether there is any indication that its property, plant and equipment, rights-of-use assets, property development project, intangible assets, interests in associates, prepayments and deposits paid and the Company's investments in subsidiaries may be impaired or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs of disposal and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior periods. Reversal of impairment loss is recognised as income in profit or loss immediately.

Borrowing costs

Borrowing costs incurred, net of any investment income on the temporary investment of the specific borrowings, that are directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised as an expense in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Provisions

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the years necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Leases

The Group assesses whether a contract is, or contains, a lease at inception of the contract. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as a lessee

The Group applies the recognition exemption to short-term leases and low-value asset leases. Lease payments associated with these leases are recognised as an expense on a straight-line basis over the lease term.

The Group has elected not to separate non-lease components from lease components, and accounts for each lease component and any associated non-lease components as a single lease component.

The Group accounts for each lease component within a lease contract as a lease separately. The Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and, where applicable, the aggregate stand-alone price of the non-lease components.

Amounts payable by the Group that do not give rise to a separate component are considered to be part of the total consideration that is allocated to the separately identified components of the contract.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as a lessee (Continued)

The Group recognises a right-of-use asset and a lease liability at the commencement date of the lease.

The right-of-use asset is initially measured at cost, which comprises:

- (a) the amount of the initial measurement of the lease liability;
- (b) any lease payments made at or before the commencement date, less any lease incentives received;
- (c) any initial direct costs incurred by the Group; and
- (d) an estimate of costs to be incurred by the Group in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability. Depreciation is provided on a straight-line basis over the shorter of the lease term and the estimated useful lives of the right-of-use asset (unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or if the cost of the right-of-use asset reflects that the Group will exercise a purchase option (if any) – in which case depreciation is provided over the estimated useful life of the underlying asset) as follows:

Leasehold land	Over the unexpired term of lease
Leased properties	Over the unexpired term of lease

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date of the contract.

The lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- (a) fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- (b) variable lease payments that depend on an index or a rate;
- (c) amounts expected to be payable under residual value guarantees;
- (d) exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- (e) payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

The lease payments are discounted using the interest rate implicit in the lease, or where it is not readily determinable, the incremental borrowing rate of the lessee.

Subsequently, the lease liability is measured by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments made.

The lease liability is remeasured using a revised discount rate when there are changes to the lease payments arising from a change in the lease term or the reassessment of whether the Group will be reasonably certain to exercise a purchase option.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as a lessee (Continued)

The lease liability is remeasured by using the original discount rate when there is a change in the residual value guarantee, the in-substance fixed lease payments or the future lease payments resulting from a change in an index or a rate (other than floating interest rate). In case of a change in future lease payments resulting from a change in floating interest rates, the Group remeasures the lease liability using a revised discount rate.

The Group recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. If the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Group recognises any remaining amount of the remeasurement in profit or loss.

A lease modification is accounted for as a separate lease if:

- (a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- (b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

When a lease modification is not accounted for as a separate lease, at the effective date of the lease modification,

- (a) the Group allocates the consideration in the modified contract on the basis of relative stand-alone price as described above;
- (b) the Group determines the lease term of the modified contract;
- (c) the Group remeasures the lease liability by discounting the revised lease payments using a revised discount rate over the revised lease term;
- (d) for lease modifications that decrease the scope of the lease, the Group accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease and recognising any gain or loss relating to the partial or full termination of the lease in profit or loss; and
- (e) for all other lease modifications, the Group accounts for the remeasurement of the lease liability by making a corresponding adjustment to the right-of-use asset.

The Group as lessor

The Group classifies each of its leases as either a finance lease or an operating lease at the inception date of the lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset. All other leases are classified as operating leases.

The Group accounts for each lease component within a lease contract as a lease separately from non-lease components of the contract. The Group allocates the consideration in the contract to each lease component on a relative stand-alone price basis.

The Group as lessor – operating lease

The Group applies the derecognition and impairment requirements in HKFRS 9 to the operating lease receivables.

A modification to an operating lease is accounted for as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Leases (Continued)

Refundable rental deposits

Refundable rental deposits received are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Employee benefits

(i) Short term employee benefits

Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the reporting period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined contribution retirement benefits

For the Company and its subsidiaries located in Hong Kong, the Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The entities within the Group in the PRC participate in defined contribution retirement benefit plans organised by relevant government authorities for its employees in the PRC and contribute to these plans based on certain percentage of the salaries of the employees on a monthly basis, up to a maximum fixed monetary amount, as stipulated by the relevant government authorities. The government authorities undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans.

The cost of all these schemes is charged to profit or loss of the Group for the reporting period concerned and the assets of all these schemes are held separately from those of the Group.

(iii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Share-based payment transactions

Equity-settled transactions

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in share option reserve within equity. The fair value is measured at grant date, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior periods is charged/credited to the profit or loss for the year of the review. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share option reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share option reserve until either the option is exercised (when it is transferred to share premium account) or the option expires (when it is released directly to accumulated losses).

Taxation

The charge for current income tax is based on the results for the period as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, any deferred tax arising from initial recognition of goodwill; or other asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences is not recognised.

The deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a holding company of the Group.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) the entity and the Group are members of the same group (which means that each holding company, subsidiary and fellow subsidiary is related to the others).
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) both entities are joint ventures of the same third party.
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) the entity is controlled or jointly controlled by a person identified in (a).
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a holding company of the entity).
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's holding company.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (a) that person's children and spouse or domestic partner;
- (b) children of that person's spouse or domestic partner; and
- (c) dependants of that person or that person's spouse or domestic partner.

In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture.

Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the executive directors of the Company for the purpose of allocating resources to, and assessing the performance of, the Group's various lines of business.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of consolidated financial statements in conformity with HKFRS Accounting Standards requires the management of the Group to make judgements, estimates and assumptions that affect the application of the Group's accounting policies and reported amounts of assets, liabilities, income and expenses, and disclosures made. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period.

(a) Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets, including property, plant and equipment, right-of-use assets, intangible assets, property development project and prepayments and deposits paid, at the end of each reporting period in accordance with the accounting policies as disclosed in Note 2 to the consolidated financial statements. In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the management of the Company has to assess whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence. If any such indication exists, the recoverable amounts of the asset would be determined as the greater of the fair value less costs of disposal and value in use, the calculations of which involve the use of estimates. Owing to inherent risk associated with estimations in the timing and amounts of the future cash flows and fair value less costs of disposal, the estimated recoverable amount of the asset may be different from the amount actually received and profit or loss could be affected by accuracy of the estimations.

(b) Loss allowance on trade and other receivables

The Group estimates the loss allowance on trade and other receivables by assessing the recoverability based on credit history, ageing of the receivables balance and prevailing market conditions. The assessments are also determined based on ECL provisioning method which requires management's estimates and judgments. Allowances are applied to these receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amount of trade and other receivables and thus the loss allowance in the period in which such estimate is changed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(c) Useful lives of property, plant and equipment

The management of the Group determines the estimated useful lives of the Group's property, plant and equipment based on the historical experience of the actual useful lives of the relevant assets of similar nature and functions. The estimated useful lives could be different as a result of technical innovations which could affect the related depreciation charges included in profit or loss.

(d) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market conditions and the historical experience of selling the products with similar nature. Any change in the market conditions and management's experience would increase or decrease the write-down of inventories or the related reversals of write-down made in prior periods.

4. REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are pharmaceutical distribution and manufacture of pharmaceutical products in the PRC.

Revenue represents the sales value of goods supplied to customers (which is recognised on the basis of "at point in time"). The revenue of each significant segment is as follows:

	2024 RMB'000	2023 RMB'000
Revenue from contracts with customers within HKFRS 15		
Pharmaceutical distribution	60,885	107,036
Pharmaceutical manufacturing	25,669	22,394
	86,554	129,430

(b) Segment reporting

The Group manages its business by business lines and distribution channels. In a manner consistent with the way in which information is reported internally to the executive directors of the Company, being the chief operating decision makers ("CODM"), for the purposes of resource allocation and assessment of segment performance, the Group has presented the following reportable segments. No operating segments have been aggregated to form the following reportable segments.

Pharmaceutical distribution:	this segment generates revenue primarily from the sales of pharmaceutical products to (i) wholesalers, and (ii) hospitals and other medical institutions in rural areas.
Pharmaceutical manufacturing:	this segment generates revenue primarily from the sales of pharmaceutical products manufactured by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

4. REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

The CODM assesses the performance of the operating segments based on a measure of revenue and gross profit. No analysis of the Group's assets and liabilities by operating segments was regularly provided to the CODM for review during the years ended 31 December 2024 and 2023 for the purposes of resource allocation and assessment of segment performance.

(i) Segment revenue and results

Segment information regarding the Group's revenue and results as provided to the CODM for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2024 and 2023 is set out below.

Year ended 31 December 2024						
	Pharmaceutical distribution				Pharmaceutical manufacturing	Total
	Sales to wholesalers	Sales to hospitals and other medical institutions in rural areas	Others	Sub-total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	21,936	38,949	–	60,885	25,669	86,554
Inter-segment revenue	–	–	–	–	1,062	1,062
Reportable segment revenue	21,936	38,949	–	60,885	26,731	87,616
Reportable segment profit	960	6,466	–	7,426	9,632	17,058

Year ended 31 December 2023						
	Pharmaceutical distribution				Pharmaceutical manufacturing	Total
	Sales to wholesalers	Sales to hospitals and other medical institutions in rural areas	Others	Sub-total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	58,195	48,831	10	107,036	22,394	129,430
Inter-segment revenue	–	–	–	–	650	650
Reportable segment revenue	58,195	48,831	10	107,036	23,044	130,080
Reportable segment profit	11,975	8,251	1	20,227	9,056	29,283

Revenue and expenses are allocated to the reportable segments with reference to sales generated by and the expenses incurred by those segments. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

4. REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(ii) Reconciliations of reportable segment revenue and segment profit or loss

	2024 RMB'000	2023 RMB'000
Revenue		
Reportable segment revenue	87,616	130,080
Elimination of inter-segment revenue	(1,062)	(650)
Consolidated revenue	86,554	129,430
Profit		
Reportable segment profit	17,058	29,283
Gain on restructuring of the financial liabilities	17,571	–
Other income	1,420	2,790
Other (losses) gains, net	(13,816)	15,111
Selling and distribution expenses	(7,988)	(7,246)
Administrative and other operating expenses	(14,451)	(23,597)
Finance costs	(14,800)	(12,933)
Consolidated (loss) profit before tax	(15,006)	3,408
Other information		
<i>Pharmaceutical distribution segment:</i>		
Depreciation for property, plant and equipment	(44)	(52)
Reversal of loss allowance on for ECL on trade receivables, net	3,002	19,465
Reversal of (Provision for) loss allowance for ECL on other receivables, net	458	(11)
Reversal of impairment loss on prepayments and deposits paid	–	14,000
Selling and distribution expenses	(7,038)	(5,992)
<i>Pharmaceutical manufacturing segment:</i>		
Depreciation for property, plant and equipment	(2,983)	(2,765)
Reversal of loss allowance on for ECL trade receivables, net	803	770
(Provision for) Reversal of loss allowance for ECL on other receivables, net	(5,457)	2,671
Provision of impairment loss on prepayments and deposits paid, net	(8,163)	(12,770)
Selling and distribution expenses	(950)	(1,254)
Reversal of write-down (Write-down) of inventories	(1,891)	(2,039)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

4. REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(iii) Information about major customers

Revenue from external customers contributing over 10% of the Group's total revenue are as follow:

	2024 RMB'000	2023 RMB'000
Customer A from pharmaceutical manufacturing segment	19,378	14,236
Customer B from pharmaceutical distribution segment	10,503	N/A*

* The corresponding customers did not contribute over 10% of the total revenue of the Group.

(iv) Geographical Information

The Group's segment revenue and segment profit were entirely derived from activities of pharmaceutical distribution and pharmaceutical manufacturing in the PRC for the years ended 31 December 2024 and 2023.

The principal assets employed by the Group were located in the PRC at 31 December 2024 and 2023. Accordingly, no analysis by geographical analysis on segment assets is provided.

5. OTHER INCOME, NET

	2024 RMB'000	2023 RMB'000
Bank interest income	11	3
Corporate bonds payable waived (note 24)	–	905
Deferred income – government grant (note 28)	512	512
Short-term lease rental income	897	1,370
Write-off of property, plant and equipment	(9)	(335)
Others	50	321
	1,461	1,876

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

6. FINANCE COSTS

	2024 RMB'000	2023 RMB'000
Interest on bank borrowings	377	499
Interest on corporate bonds payable	1,128	6,602
Interest on other borrowings	4,430	5,829
Interest on lease liabilities	—	3
Imputed interest arising from repayment obligations under the Scheme of Arrangement	8,865	—
	14,800	12,933

7. (LOSS) PROFIT BEFORE TAX

(Loss) Profit before tax is arrived at after charging (crediting):

	2024 RMB'000	2023 RMB'000
Staff costs, including directors' emoluments		
Salaries, allowances, discretionary bonus and other benefits in kinds	6,981	7,562
Retirement benefits scheme contributions	1,617	664
Total staff costs (included in "cost of goods sold", "selling and distribution expenses", "administrative and other operating expenses") (Note (i))	8,598	8,226
Other items		
Auditors' remuneration		
– Audit services	1,300	1,493
– Non-audit services	—	226
Cost of inventories	69,496	100,147
(Reversal of write-down) Write-down of inventories (included in "cost of goods sold")	(1,891)	2,039
Amortisation of intangible assets (included in "administrative and other operating expenses")	20	30
Depreciation of property, plant and equipment (included in "cost of goods sold" and "administrative and other operating expenses")	3,027	2,872
Depreciation of right-of-use assets (included in "cost of goods sold" and "administrative and other operating expenses")	51	405
Consultation fee	877	6,167
Professional fee	68	3,047
Advertising expenses	2,607	2,496
Short-term lease rental expenses (included in "administrative and other operating expenses") (Note (ii))	417	—

Notes:

- (i) For the years ended 31 December 2024 and 2023, there were no forfeited contributions in respect of contribution previously made which were available to reduce the Group's existing level of contributions to the relevant defined contribution retirement plans.
- (ii) At 31 December 2024, the Group was committed to pay approximately RMB355,000 (2023: Nil) for short-term lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

8. TAXATION

	2024 RMB'000	2023 RMB'000
Current tax		
PRC Enterprise Income Tax	67	930
Under-provision in prior periods	112	—
	179	930
Deferred tax (<i>Note 27</i>)		
Origination of temporary differences	128	128
	307	1,058

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (“BVI”), the group entities incorporated in the Cayman Islands and the BVI are not subject to any income tax.

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for years ended 31 December 2024 and 2023.

In March 2018, the two-tiered profits tax rates regime was signed into law of Hong Kong, under which the first HK\$2 million of profits of qualifying corporations will be taxed at 8.25% (the “graduated tax rate”), and assessable profits above HK\$2 million will be taxed at 16.5% for the years ended 31 December 2024 and 2023. The profits of corporations in the Group not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5% of the estimated assessable profits for the years ended 31 December 2024 and 2023.

Hong Kong Profits Tax has not been provided as the Group incurred a loss for taxation purposes for the years ended 31 December 2024 and 2023.

The income tax expenses can be reconciled to (loss) profit before tax as per the consolidated statement of profit or loss as follows:

	2024 RMB'000	2023 RMB'000
(Loss) Profit before tax	(15,006)	3,408
Tax charge on (loss) profit before tax, calculated at the statutory tax rates applicable in the jurisdictions concerned	(3,994)	2,820
Effect of non-deductible expenses	2,604	5,282
Effect of non-taxable income	(2,899)	(5,365)
Effect of temporary differences previously not recognised	2,997	400
Effect of tax loss not recognised	1,487	—
Effect of tax loss utilised	—	(2,079)
Under-provision for prior periods	112	—
Income tax expenses	307	1,058

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

9. INFORMATION ABOUT THE BENEFITS OF DIRECTORS

(a) Directors' remuneration

The aggregate amounts of remuneration received and receivables by the directors of the Company are as follows:

Year ended 31 December 2024

	Directors' fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Discretionary bonus RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive directors					
Mr. Yuan Hongbing (Note 1)	-	-	-	-	-
Mr. Ma Qinghai (Note 2)	-	146	-	-	146
Mr. Feng Junzheng (Note 3)	-	-	-	-	-
Professor Xiao Kai (Note 3)	-	-	-	-	-
Non-executive directors					
Mr. Zhang Tong (Note 5)	-	-	-	-	-
Mr. Chen Yunwei (Note 5)	-	-	-	-	-
Mr. Chen Zhongzheng (Note 6)	-	-	-	-	-
Mr. Zhou Jinkai (Note 6)	-	-	-	-	-
Independent non-executive directors					
Ms. Li Yan (Note 8)	-	-	-	-	-
Mr. Khor Khie Liem Alex (Note 8)	-	-	-	-	-
Mr. Wong Tung Yuen (Note 9)	-	-	-	-	-
Mr. Cao Lei (Note 10)	-	-	-	-	-
	-	146	-	-	146

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

9. INFORMATION ABOUT THE BENEFITS OF DIRECTORS (Continued)

(a) Directors' remuneration (Continued)

Year ended 31 December 2023

	Directors' fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Discretionary bonus RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive directors					
Mr. Yuan Hongbing (Note 1)	—	—	—	—	—
Mr. Feng Junzheng (Note 3)	—	—	—	—	—
Professor Xiao Kai (Note 3)	—	—	—	—	—
Mr. Shen Shun (Note 4)	—	—	—	—	—
Non-executive directors					
Mr. Zhang Tong (Note 5)	—	—	—	—	—
Mr. Chen Yunwei (Note 5)	—	—	—	—	—
Mr. Zhang Xiongfeng (Note 7)	—	—	—	—	—
Independent non-executive directors					
Ms. Li Yan (Note 8)	—	—	—	—	—
Mr. Khor Khie Liem Alex (Note 8)	—	—	—	—	—
Mr. Cao Lei (Note 10)	—	—	—	—	—
Mr. Ding Qing (Note 11)	—	—	—	—	—
Ms. Luo Ke (Note 11)	—	—	—	—	—
	—	—	—	—	—
	—	—	—	—	—

Notes:

- Mr. Yuan Hongbing was appointed as an executive director of the Company on 28 March 2023.
- Mr. Ma Qinghai was appointed as an executive director of the Company on 2 April 2024.
- Mr. Feng Junzheng and Professor Xiao Kai were retired as executive directors of the Company on 22 February 2024.
- Mr. Shen Shun was resigned as an executive director of the Company on 26 October 2023.
- Mr. Zhang Tong and Mr. Chen Yunwei were retired as non-executive directors of the Company on 22 February 2024.
- Mr. Chen Zhongzheng and Mr. Zhou Jinkai were appointed as non-executive directors of the Company on 2 April 2024.
- Mr. Zhang Xiongfeng was resigned as a non-executive director of the Company on 16 March 2023.
- Ms. Li Yan and Mr. Khor Khie Liem Alex were appointed as independent non-executive directors of the Company on 10 March 2023.
- Mr. Wong Tung Yuen was appointed as an independent non-executive director of the Company on 20 May 2024.
- Mr. Cao Lei was retired as an independent non-executive director of the Company on 22 February 2024.
- Mr. Ding Qing and Ms. Luo Ke were resigned as independent non-executive directors of the Company on 10 March 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

9. INFORMATION ABOUT THE BENEFITS OF DIRECTORS *(Continued)*

(a) Directors' remuneration *(Continued)*

During the years ended 31 December 2024 and 2023, there were no amounts were paid or payable by the Group to any of the directors of the Company as an inducement to join or upon joining the Group, or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any emoluments for the years ended 31 December 2024 and 2023.

(b) Loans, quasi-loans and other dealings in favour of directors

There are no loans, quasi-loans or other dealings in favour of the directors of the Company or their connected entities that were entered into or subsisted during the years ended 31 December 2024 and 2023.

(c) Directors' material interests in transactions, arrangements or contracts

After consideration, the directors of the Company are of the opinion that no transactions, arrangements and contracts of significance in relation to the Company's business to which the Company was a party and in which a director of the Company, or connected entity of the directors of the Company, had a material interest, whether directly or indirectly, subsisted at the end of the years ended 31 December 2024 and 2023 or at any time during the years ended 31 December 2024 and 2023.

10. FIVE HIGHEST PAID INDIVIDUALS

No director is included in the aggregate emoluments of the five highest paid individuals during the years ended 31 December 2024 and 2023.

The emoluments of the five (2023: five) highest paid non-director individuals are as follows:

	2024 RMB'000	2023 RMB'000
Salaries, allowance, discretionary bonus and other benefits in kinds	1,197	952
Retirement benefits scheme contributions	209	58
	<u>1,406</u>	<u>1,010</u>

The emoluments of the five (2023: five) highest paid non-director individuals are within the following bands:

	Number of individuals	
	2024	2023
HK\$Nil to HK\$1,000,000	<u>5</u>	<u>5</u>

During the years ended 31 December 2024 and 2023, there were no amounts were paid or payable by the Group to the five highest paid individuals as an inducement to join or upon joining the Group, or as a compensation for loss of office. There was no arrangement under which the five highest paid individuals waived or agreed to waive any emoluments for the years ended 31 December 2024 and 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

11. DIVIDENDS

No dividend was paid, declared or proposed during the year ended 31 December 2024 (2023: Nil) nor had any dividend been proposed since the end of the reporting period (2023: Nil).

12. (LOSS) EARNINGS PER SHARE

(a) Basic (loss) earnings per share

The calculation of basic (loss) earnings per share attributable to the owners of the Company for the years ended 31 December 2024 and 2023 is based on the following data:

	2024 RMB'000	2023 RMB'000
(Loss) Profit for the year attributable to owners of the Company for the purpose of calculating basic (loss) earnings per share	(15,313)	2,350
Number of ordinary shares:		
Weighted average number of ordinary shares for the purpose of calculating basic (loss) earnings per share	1,474,993,000	1,474,993,000

(b) Diluted (loss) earnings per share

Weighted average number of ordinary shares

The calculation of diluted loss per share is the same as the basic loss per share as there were no dilutive potential ordinary shares during the year ended 31 December 2024.

Diluted earnings per share is the same as the basic earnings per share as the Company's share option has no dilutive effect for the year ended 31 December 2023 because the exercise prices of the Company's share options were higher than the average market price of the Company's shares for the year ended 31 December 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000 (Note)	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Furniture and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost							
At 1 January 2023	54,034	4,843	10,852	2,099	1,850	3,463	77,141
Additions	-	40	-	28	-	-	68
Write-off	-	-	(945)	(10)	(338)	-	(1,293)
At 31 December 2023 and 1 January 2024	54,034	4,883	9,907	2,117	1,512	3,463	75,916
Additions	-	-	99	-	-	-	99
Transfer upon completion	-	3,463	-	-	-	(3,463)	-
Write-off	-	-	-	(78)	(232)	-	(310)
At 31 December 2024	54,034	8,346	10,006	2,039	1,280	-	75,705
Accumulated depreciation and impairment losses							
At 1 January 2023	23,394	4,146	10,352	1,937	1,776	-	41,605
Depreciation	2,439	256	70	52	55	-	2,872
Eliminated on write-off	-	-	(639)	-	(319)	-	(958)
At 31 December 2023 and 1 January 2024	25,833	4,402	9,783	1,989	1,512	-	43,519
Depreciation	2,430	533	20	44	-	-	3,027
Eliminated on write-off	-	-	-	(69)	(232)	-	(301)
At 31 December 2024	28,263	4,935	9,803	1,964	1,280	-	46,245
Carrying amount							
At 31 December 2024	25,771	3,411	203	75	-	-	29,460
At 31 December 2023	28,201	481	124	128	-	3,463	32,397

Note: The Group's buildings are located on leasehold land in the PRC.

At 31 December 2024, approximately RMB25,771,000 (2023: approximately RMB28,201,000) of the buildings was pledged as security of the Group's bank borrowings (Note 23).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

14. RIGHT-OF-USE ASSETS

	Leasehold lands RMB'000 (Note a)	Leased properties RMB'000 (Note b)	Total RMB'000
At 1 January 2023	1,931	346	2,277
Depreciation	(59)	(346)	(405)
At 31 December 2023 and 1 January 2024	1,872	–	1,872
Depreciation	(51)	–	(51)
At 31 December 2024	1,821	–	1,821

Notes:

- (a) The leasehold lands represent prepaid land lease payments in respect of lands located in the PRC. Such leased lands are amortised over the periods ranging from 43 to 50 years (2023: 43 to 50 years).

At 31 December 2024, the carrying amount of a leasehold land approximately RMB724,000 (2023: approximately RMB741,000) was pledged as security of the Group's bank borrowings (Note 23).

- (b) The Group was the lessee in respect of the Group's offices and warehouses under operating leases.

15. INTERESTS IN ASSOCIATES

	2024 RMB'000	2023 RMB'000
Unlisted associates		
Cost of investments	–	48,956
Share of post-acquisition loss and other comprehensive income	–	(6,471)
Impairment loss recognised	–	(42,485)
	–	–

Details of the associates of the Group are as follows:

Name of associate	Principal place of business and place of incorporation	Proportion equity interest held by the Group		Proportion of voting rights held by the Group		Principal activities
		2024	2023	2024	2023	
Awesome Applause Sdn. Bhd. ("Awesome Applause")	Malaysia	49%	49%	49%	49%	Property investment
Massive Goodwill Sdn. Bhd. ("Massive Goodwill")	Malaysia	49%	49%	49%	49%	Property investment

The above associates are accounted for using the equity method in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

15. INTERESTS IN ASSOCIATES (Continued)

Awesome Applause and Massive Goodwill are engaged in property investment in Malaysia. On 8 April 2022, Awesome Applause and Massive Goodwill entered into certain agreements with the developer of the properties under which the acquisition of the 68 units of the properties was terminated by the developer due to the failure to settle the outstanding sum in accordance with the respective terms as stated in the agreements. In the view of the management of the Group, the investments in these associates were considered not recoverable and a full impairment loss was provided during the year ended 31 December 2021. During the year ended 31 December 2024, the management of the Group determined that the recovery of the investment in associates was remote, as a result, the Group wrote off the investment in associates.

16. INTANGIBLE ASSETS

	Patent RMB'000 (Note)	Computer software RMB'000	Total RMB'000
Cost			
At 1 January 2023, 31 December 2023, 1 January 2024 and 31 December 2024	37,000	1,237	38,237
Accumulated amortisation and impairment losses			
At 1 January 2023	37,000	1,181	38,181
Amortisation for the year	—	30	30
At 31 December 2023 and 1 January 2024	37,000	1,211	38,211
Amortisation for the year	—	20	20
At 31 December 2024	37,000	1,231	38,231
Carrying amount			
At 31 December 2024	—	6	6
At 31 December 2023	—	26	26

Note:

During the prior year ended 31 December 2019, the Group acquired three patents for an aggregate consideration of RMB35,000,000 from an independent third party, 武漢好多多生物科技有限公司 (Wuhan Hao Duo Duo Bio-technology Co., Ltd.*) ("Wuhan Hao Duo Duo").

Under the agreement for the acquisition, the Group is entitled to exclusively use these patents for the period commencing from 27 February 2019 to 3 May 2033 and 30 October 2033 ("Patent Period") and the Group licenced such patents to Wuhan Hao Duo Duo over the Patent Period for receipt of royalty fee of RMB4,000,000 per annum. Due to uncertainty on the recoverability of the royalty fee from the licence of the patents, full impairment losses on these patents were recognised in profit and loss in prior years.

* For identification purpose only

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

17. PROPERTY DEVELOPMENT PROJECT

	2024 RMB'000	2023 RMB'000
Property development project in the PRC, at cost	185,797	185,797
Less: Impairment loss recognised	(142,297)	(137,797)
	43,500	48,000

The cost of the property development project represents the Group's payments to a third party, Chengdu Yiming Investment Management Company Limited ("Chengdu Yiming"), amounted to approximately RMB185,797,000 for the property development project of a logistic centre in the PRC. The land use rights of the land of the property development project is currently registered in the name of a subsidiary of the Company and Chengdu Yiming. During the year ended 31 December 2019, the negotiation with the PRC local government regarding the land premium and other terms for the change of land usage of the land for the property development project had been finalised. The licence for the construction was obtained and the construction commenced afterwards. Pursuant to the development agreement, the development costs of the property development project, including any land premium of the land for the project arising from change of land usage, were financed as to 30% and 70% by the Group and Chengdu Yiming, respectively, and the subsidiary of the Company and Chengdu Yiming were entitled to share 30% and 70%, respectively, of the ownership of the land used for the property development project and the properties after the completion of development.

The management of the Group conducted impairment assessment of the property development project using the residual method by reference to its estimated market value (based on the development potential of the properties as if they were completed in accordance with the existing development proposal) at 31 December 2024 and 2023 as valued by an independent professional valuer, Vincorn Consulting and Appraisal Limited (2023: Vincorn Consulting and Appraisal Limited). The estimated market value at 31 December 2024 and 2023 was estimated by reference to relevant property sale transactions occurred during the respective years, the development costs and allowance of profit required for the developer as well as time factor. The fair value measurement is categorised as a Level 3 fair value based on the inputs used. With reference to the results of valuation, the recoverable amount, representing the estimated market value less cost of disposal, was approximately RMB43,500,000 (2023: approximately RMB48,000,000) at 31 December 2024. An impairment loss on the property development project amounted to approximately RMB4,500,000 (2023: approximately RMB9,000,000) was recognised in profit or loss for the year ended 31 December 2024.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

17. PROPERTY DEVELOPMENT PROJECT (Continued)

Key assumptions used in the valuation and its sensitivity are as follows:

Significant unobservable input	Change	Increase in impairment loss
Estimated market price per square meter at approximately RMB8,900/sq.m. (2023: approximately RMB9,600/sq.m.)	Decrease 1% (2023: 1%)	Approximately RMB1,800,000 (2023: approximately RMB1,000,000)
Allowance of profit required for the developer at 20% (2023: 20%)	Increase 1% (2023: 1%)	Approximately RMB1,500,000 (2023: approximately RMB2,000,000)

18. INVENTORIES

	2024 RMB'000	2023 RMB'000
Raw materials	2,182	2,494
Finished goods	35,603	2,794
Consumables	49	90
	37,834	5,378

During the year ended 31 December 2024, a reversal of write-down amounting to approximately HK\$1,891,000 was recognised in profit or loss due to the sale of slow-moving inventories.

During the year ended 31 December 2023, a write-down of inventory of approximately HK\$2,039,000 was recognised in profit or loss in respect of write-down to net realisable value of certain raw materials, finished goods and consumables due to obsolescence and/or diminishing marketability as a result of changes in market condition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

19. TRADE AND OTHER RECEIVABLES

	Notes	2024 RMB'000	2023 RMB'000
Trade receivables		284,313	288,988
Less: Loss allowance for ECL		(258,177)	(261,982)
	(a)	26,136	27,006
Bank bills receivables	(b)	1,633	1,369
Trade and bill receivables, net		27,769	28,375
Other receivables	(c)	1,860	8,642
		29,629	37,017

Notes:

(a) Trade receivables

The Group normally grants credit terms of 30 to 180 days (2023: 30 to 180 days) to its customers. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by the management of the Group. The Group does not hold any collateral or other credit enhancements over its trade receivables balances.

At the end of the reporting period, the ageing analysis of the trade receivables presented based on dates of goods delivery and net of loss allowance for ECL is as follows:

	2024 RMB'000	2023 RMB'000
Within 1 month	9,460	14,079
1 to 3 months	9,222	9,276
4 to 6 months	7,454	3,651
	26,136	27,006

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

19. TRADE AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(a) Trade receivables (Continued)

At the end of the reporting period, the ageing analysis of the trade receivables presented by due date and net of loss allowance for ECL is as follows:

	2024 RMB'000	2023 RMB'000
Not past due	19,783	23,355
Past due:		
Within 1 month	4,168	3,469
1 to 3 months	2,185	182
	6,353	3,651
	26,136	27,006

Movements on the Group's loss allowance for ECL on trade receivables are as follows:

	2024 RMB'000	2023 RMB'000
At the beginning of the reporting period	261,982	404,908
Provision for loss allowance for ECL	3,118	—
Reversal of loss allowance for ECL	(6,923)	(20,235)
Amounts written off as uncollectible	—	(122,691)
At the end of the reporting period	258,177	261,982

During the years ended 31 December 2024 and 2023, the Group has recovered a part of long-aged trade receivables leading to reversal of loss allowance for ECL on trade receivables.

(b) Bank bills receivables

The bank bills receivables are due within 180 days (2023: 180 days) from the date of billing.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

19. TRADE AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(c) Other receivables

	2024 RMB'000	2023 RMB'000
Gross other receivables	57,511	61,419
Less: Loss allowance for ECL	(55,651)	(52,777)
	<u>1,860</u>	<u>8,642</u>

An analysis of the other receivables net of loss allowance for ECL is as follows:

	2024 RMB'000	2023 RMB'000
Other taxes recoverable	30	256
Other receivables (Note)	1,830	8,386
	<u>1,860</u>	<u>8,642</u>

Note: Other receivables are unsecured, interest-free and expected to be recovered within one year.

Movements on the Group's loss allowance for ECL on other receivables are as follows:

	2024 RMB'000	2023 RMB'000
At the beginning of the reporting period	52,777	55,437
Provision for (Reversal of) loss allowance for ECL, net	4,999	(2,660)
Amounts written off as uncollectible	(2,125)	—
At the end of the reporting period (Note)	<u>55,651</u>	<u>52,777</u>

Note: Included in other receivables are receivables from certain third parties totalled approximately RMB55,651,000 (2023: approximately RMB52,777,000) which remained outstanding for a considerably long period of time. Having considered the ongoing monitoring results of the related debtors, the management of the Group is of the view that the recoverability of these other receivables cannot be assured beyond reasonable doubt, accordingly, considers it is appropriate to recognise the loss allowance on these receivables amounted to approximately RMB4,999,000 (2023: reversal of loss allowance approximately RMB2,660,000) which was charged to profit or loss for the year ended 31 December 2024.

Information about the Group's exposure to credit risk and loss allowance for trade and other receivables is included in Note 34 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

20. PREPAYMENTS AND DEPOSITS PAID

	2024 RMB'000	2023 RMB'000
Gross prepayments and deposits paid	86,277	122,055
Less: impairment losses recognised	(64,889)	(56,726)
	21,388	65,329

An analysis of the prepayments and deposits paid net of impairment losses is as follows:

	2024 RMB'000	2023 RMB'000
Advance payments to suppliers (Note i)	13,279	51,312
Other deposits and prepayments	562	6,719
Committed deposit of the Scheme of Arrangement (Note 26)	7,547	7,298
	21,388	65,329

Movements in impairment losses recognised for prepayments and deposits paid are as follows:

	2024 RMB'000	2023 RMB'000
At the beginning of the reporting period	56,726	57,956
Provision for impairment loss	9,047	12,770
Reversal of impairment loss	(884)	(14,000)
At the end of the reporting period	64,889	56,726

Note:

- (i) The amount represents deposits paid to suppliers for purchases of goods in relation to the business undertaken by the Group.

During the year ended 31 December 2024, the management of the Group makes periodic individual assessment on the recoverability of prepayment and deposit paid by considering historical settlement records, past experience and also quantitative and qualitative information that is reasonable and supportive forward-looking information. In the view of the management of the Group, the recoverability of the advance payments made to certain suppliers cannot be assured beyond reasonable doubt, accordingly impairment loss amounted to approximately RMB9,047,000 (2023: approximately RMB12,770,000) was recognised in profit or loss. In addition, a reversal of impairment loss previously made against the advance payment amounted to approximately RMB884,000 (2023: approximately RMB14,000,000) had been made and credited to profit or loss following the refund by the suppliers subsequent to the end of respective reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

21. CASH AND CASH EQUIVALENTS

	2024 RMB'000	2023 RMB'000
Cash and cash equivalents in the consolidated statement of financial position		
– Cash at banks and on hand	15,972	16,511

Notes:

- (a) Cash at bank earned interest at floating rates based on daily bank deposit rates. The carrying amounts of the cash and cash equivalents approximate their fair values.
- (b) Cash and cash equivalents placed with banks in the PRC totaling approximately RMB15,929,000 (2023: approximately RMB16,442,000) are denominated in RMB. Remittance of these funds out of the PRC is subject to relevant rules and regulations of foreign exchange control promulgated by the government of the PRC.

22. TRADE AND OTHER PAYABLES

	2024 RMB'000	2023 RMB'000
Trade and bill payables (<i>Note (i)</i>)	31,633	32,631
Contract liabilities (<i>Note (ii)</i>)	14,522	12,842
Accrued corporate bond interest	–	29,510
Accrued interest for other borrowings	3,455	7,537
Accrued professional fees	3,414	8,774
Payables for staff related costs	9,827	8,900
Other payables	20,189	29,975
	83,040	130,169
Analysed as:		
Non-current liabilities	3,296	–
Current liabilities	79,744	130,169
	83,040	130,169

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

22. TRADE AND OTHER PAYABLES (Continued)

Notes:

- (i) At the end of the reporting period, the ageing analysis of trade and bills payables, based on dates of goods delivery / bills issue date is as follows:

	2024 RMB'000	2023 RMB'000
Within 1 month	3,373	3,769
1 to 3 months	1,853	3,766
Over 3 months	26,407	25,096
	31,633	32,631

An average credit period of 30 to 180 days (2023: 30 to 180 days) is granted by the suppliers to the Group. The bank bills payables are due within 180 days (2023: Nil) from the date of billing.

- (ii) The Group received deposits from customers for sales of pharmaceutical products as provided in contracts which are regarded as contract liabilities.

The movement (excluding those arising from increases and decreases both occurred within the same year) of contract liabilities from contracts within HKFRS 15 during the years ended 31 December 2024 and 2023 are as follows:

	2024 RMB'000	2023 RMB'000
At the beginning of the reporting period	12,842	22,560
Receipt in advances	2,381	—
Recognised as revenue	—	(9,718)
Set off the trade receivables	(701)	—
At the end of the reporting period	14,522	12,842

The Group applies the practical expedient and does not disclose information about the remaining performance obligations that have original expected durations of one year or less.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2024***23. BANK BORROWINGS**

	2024 RMB'000	2023 RMB'000
Fixed-rate borrowings:		
– Secured and repayable within one year	11,380	7,160

The bank borrowings are repayable within one year (2023: one year) since its inception. The bank borrowings carried interest at fixed interest rate ranging from approximately 3.80% - 4.30% per annum (2023: approximately 4.15% - 4.93% per annum).

At 31 December 2024, the bank borrowings are secured by:

- (i) personal guarantees provided by the directors of the subsidiaries (2023: personal guarantees provided by the directors of the subsidiaries); and
- (ii) charges over the Group's leasehold land and buildings with aggregate net carrying amount of approximately RMB26,495,000 (2023: approximately RMB28,942,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

24. CORPORATE BONDS PAYABLE

	2024 RMB'000	2023 RMB'000
Carrying amount of corporate bonds due in:		
– 2019	–	1,699
– 2020	–	11,611
– 2021	–	13,689
– 2022	–	3,193
– 2024	–	35,983
– 2025	–	17,298
	–	83,473
Analysed as		
Current liabilities	–	83,473

Note:

At 31 December 2023, the corporate bonds with the principal amount of approximately HK\$92,300,000 remained outstanding which are unsecured, bearing coupon rates ranging from 6.5% - 7% per annum with maturity periods from 2 to 7.5 years.

The Group had not made repayments of principals and interests on certain corporate bonds in accordance with the terms of corporate bonds, which resulted in the Group's failure to comply with certain covenants specified in the agreements for the corporate bonds. Accordingly, the corporate bonds are reclassified and included in current liabilities.

During the year ended 31 December 2023, certain corporate bonds payable of approximately HK\$2,000,000 (equivalent to approximately RMB1,809,000) had been settled under court order, principal outstanding amounted to approximately HK\$1,000,000 (equivalent to approximately RMB905,000) had been waived and credited to profit or loss.

During the year ended 31 December 2024, upon the Scheme of Arrangement became effective on 12 March 2024, the corporate bonds payable were discharged in exchange for the Scheme of Arrangement, which carried zero-coupon interest rate. Details of the Scheme of Arrangement are set out in Note 26 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

25. OTHER BORROWINGS

	2024 RMB'000	2023 RMB'000
Unsecured borrowings from a director of the Company:		
More than one year, but not exceeding two years	–	4,288
Unsecured borrowings from third parties:		
Within one year	3,700	24,418
More than one year, but not exceeding two years	26,500	–
More than two years, but not exceeding three years	2,447	46,631
	32,647	71,049
	32,647	75,337
Analysed as:		
Non-current liabilities	28,947	50,919
Current liabilities	3,700	24,418
	32,647	75,337

The other borrowings from third parties (2023: a director and third parties) are unsecured, interest bearing at 1% per month and 6% to 8% per annum (2023: 1% per month and 8% to 12% per annum), respectively, and repayable including interest payable ranging from 2 to 3 years (2023: 1 to 3 years) since its inception.

During the year ended 31 December 2024, upon the Scheme of Arrangement became effective on 12 March 2024, certain other borrowings were discharged in exchange for the Scheme of Arrangement, which carried zero-coupon interest rate. Details of the Scheme of Arrangement are set out in Note 26 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2024***26. REPAYMENT OBLIGATIONS UNDER THE SCHEME OF ARRANGEMENT**

	2024 RMB'000	2023 RMB'000
Non-current liabilities	156,805	—
Current liabilities	6,894	—
	163,699	—
Within one year	6,894	—
After one year but within two years	8,790	—
After two years but within five years	148,015	—
	163,699	—

The Group initiated a restructuring of its overall indebtedness position in order to address the liquidity issue faced by the Company during the year ended 31 December 2023. All necessary statutory, regulatory, and creditors' approvals of the Scheme of Arrangement have been obtained during the year ended 31 December 2023. All admitted claims owned by the Company to those creditors would be discharged and released in full as against the Company on the effective date of the Scheme of Arrangement.

The details of the Scheme of Arrangement as set out below:

On 12 March 2024, the Scheme of Arrangement became effective for the restructuring of its overall indebtedness position, under which

- (i) All unsecured and non-preferential claims (the "Scheme Claims") shall be discharged and released in full as against the Company on the date on which the Scheme of Arrangement becomes unconditional and comes into effect;
- (ii) The creditors with the Scheme Claims (the "Scheme Creditors"), which have been admitted by the administrators of the Scheme of Arrangement or the adjudicator (the "Admitted Claims"), will be entitled to the following in proportion to their admitted claims on a pari passu basis:
 - an initial cash payment representing 1% of the Admitted Claims (the "Initial Cash Payment"); and
 - annual cash payments from years 2024 to 2028 (the "Yearly Payments").
- (iii) The Scheme Claims carries zero-coupon interest rate.

The Yearly Payments comprise a cash amount which shall be the higher of (i) HK\$5 million for the year 2024 and HK\$10 million annually for the years 2025 to 2028; and (ii) a cash amount representing the relevant proportion of the audited consolidated net profits of the Company for the relevant financial year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

26. REPAYMENT OBLIGATIONS UNDER THE SCHEME OF ARRANGEMENT

(Continued)

If the aggregate of the Initial Cash Payment and all the Yearly Payments are insufficient to settle all the Admitted Claims, the Company shall allot and issue new shares (the “Scheme Shares”) to the Scheme Creditors through the special purpose company controlled by the administrators of the Scheme of Arrangement (the “Scheme Administrators”), subject to the approval of the shareholders of the Company (if applicable), the Stock Exchange, the requirements of the Listing Rules and the determination of the Scheme Administrators. The exact number of the Scheme Shares to be issued and the issue price per share are to be determined following of the settlement of the Initial Cash Payment and the Yearly Payments.

The Initial Cash Payment and related scheme cost to be financed by a deposit of HK\$8,000,000 (equivalent to approximately RMB7,547,000) seized by the administrators of the Scheme of Arrangement at 31 December 2023 and 2024, which are included in “Prepayments and deposits paid” in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

27. DEFERRED TAXATION

The components of deferred tax liabilities represents the temporary differences on income and expenses, including depreciation/amortisation, certain provision for impairment and provision for accrued expenses in the consolidated statement of financial position and the movements of the deferred tax liabilities during the years ended 31 December 2024 and 2023 are as follows:

	RMB'000
At 1 January 2023	1,869
Charged to profit or loss	<u>128</u>
At 31 December 2023 and 1 January 2024	1,997
Charged to profit or loss	<u>128</u>
At 31 December 2024	<u>2,125</u>

At 31 December 2024, the estimated withholding tax effects on the distribution of PRC subsidiaries' accumulated profits were approximately RMB133,783,000 (2023: approximately RMB139,452,000) which would become payable when they are distributed. The management of the Group confirmed that profits generated by the relevant PRC subsidiaries from 1 January 2008 onward will not be distributed to its direct holding company outside the PRC in the foreseeable future.

At the end of the reporting period, the Group has unused tax losses in total approximately RMB16,389,000 (2023: approximately RMB11,046,000) available for offset against future profits. No deferred tax asset has been recognised in respect of these deductible temporary differences due to the unpredictability of future profit streams. The tax losses will expire in one to five years after the end of the reporting period as follow:

	2024 RMB'000	2023 RMB'000
Year of expiry		
– 2029	5,946	–
– 2028	–	–
– 2027	–	–
– 2026	5,922	5,922
– 2025	4,521	4,521
– 2024	–	603
	<u>16,389</u>	<u>11,046</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

28. DEFERRED INCOME – GOVERNMENT GRANT

	2024 RMB'000	2023 RMB'000
At 1 January	22,005	22,517
Credited to profit to loss (Note 5)	(512)	(512)
At 31 December	21,493	22,005
Analysed as:		
Non-current liabilities	20,981	21,493
Current liabilities	512	512
	21,493	22,005

The deferred income of the Group mainly represents government compensation in respect of the exchange of land use rights with local government.

Such deferred income will be recognised as income on a straight-line basis over the expected useful life of the relevant assets.

Included in the deferred income on government grant, approximately RMB20,981,000 (2023: approximately RMB21,493,000) represented the income that is not expected to be realised to profit or loss within 12 months subsequent to 31 December 2024 and therefore is presented under non-current liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

29. SHARE CAPITAL

	Number of shares '000	Nominal value HK\$'000	
Authorised:			
<i>Ordinary shares of HK\$0.001 each</i>			
At 1 January 2023, 31 December 2023, 1 January 2024 and 31 December 2024	<u>5,000,000</u>	<u>5,000</u>	
	Number of shares '000	Nominal value HK\$'000	Nominal value RMB'000
Issued and fully paid:			
<i>Ordinary shares of HK\$0.001 each</i>			
At 1 January 2023, 31 December 2023, 1 January 2024 and 31 December 2024	<u>1,474,993</u>	<u>1,475</u>	<u>1,216</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

30. EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company adopted the share option scheme (the “**Share Option Scheme**”) on 26 May 2015 for the purpose of rewarding certain eligible participants for their past contributions and attracting and retaining, or otherwise maintaining on-going relationships with, such eligible participants who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group. Subject to early termination of the Share Option Scheme in accordance with the rules thereof, the Scheme shall remain in force for a period of ten years commencing from 26 May 2015.

Eligible participants of the Share Option Scheme include (i) any proposed, full-time or part-time employees, executives or officers of the Company or any of its subsidiaries; (ii) any director or proposed director (including an independent non-executive director) of the Company or any of its subsidiaries; (iii) any direct or indirect shareholder of the Company or any of its subsidiaries; (iv) any supplier, customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of the Company or any of its subsidiaries; (v) any person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to the Company or any of its subsidiaries; and (vi) any associate of any of the persons referred to in paragraphs (i) to (v) above.

The maximum number of shares which may be issued upon the exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the shares in issue.

Participants of the Share Option Scheme are required to pay the Company HK\$1.0 upon acceptance of the grant within 28 days after the offer date. The exercise price of the share options is determinable by the directors of the Company, but shall not be less than the highest of (i) the closing price of the Company's shares as quoted on the Stock Exchange's daily quotations sheet for trade in one or more board lots of the shares on the date of the offer for the grant, which must be a business day; (ii) the average closing price of the Company's shares as quoted on the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of offer; and (iii) the nominal value of a share. The exercise of any option may be subject to a vesting schedule to be determined by the Board in its absolute discretion, which shall be specified in the offer letter.

Shares are issued and allotted upon the exercise of options. The Company has no legal or constructive obligations to repurchase or settle the options in cash.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2024***30. EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)**

No share options were granted and exercised under the Share Option Scheme during the years ended 31 December 2024 and 2023.

	2024					2023				
	Weighted average exercise price	Number of share options				Weighted average exercise price	Number of share options			
	HK\$	Directors '000	Employees '000	Others '000	Total '000	HK\$	Directors '000	Employees '000	Others '000	Total '000
At 1 January and 31 December	0.67	20,000	10,000	70,000	100,000	0.67	20,000	10,000	70,000	100,000
Exercisable at the end of the reporting period	0.67	20,000	10,000	70,000	100,000	0.67	20,000	10,000	70,000	100,000

The exercise prices and exercise periods of the share options outstanding at the end of the reporting period are as follows:

2024

Number of options '000	Exercise price per share HK\$	Exercise period
100,000	0.67	7 September 2018 to 25 May 2025

2023

Number of options '000	Exercise price per share HK\$	Exercise period
100,000	0.67	7 September 2018 to 25 May 2025

The weighted average exercise price of the share options granted and outstanding at the end of the reporting period is HK\$0.67 (2023: HK\$0.67) per share. The weighted average remaining contractual life of outstanding share options granted and outstanding at the end of the reporting period is 0.4 years (2023: 1.4 years).

At the end of the reporting period, the Company had 100,000,000 (2023: 100,000,000) share options outstanding under the Share Option Scheme. Exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 100,000,000 (2023: 100,000,000) additional ordinary shares of the Company which would give rise to the total gross proceeds of approximately HK\$67,000,000 (2023: approximately HK\$67,000,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

31. RESERVES

(a) Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the Companies Law of the Cayman Islands, the funds in share premium account are distributable to shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(b) statutory reserve

Pursuant to the articles of association of the Group's PRC subsidiaries and relevant statutory regulations, appropriations to the statutory reserve fund were made at a 10% of profit after taxation determined in accordance with the accounting rules and regulations of the PRC. When the balance of statutory reserve fund reaches 50% of registered capital of each relevant PRC subsidiary, any further appropriation is at the discretion of the shareholders of this subsidiary. This reserve fund can be utilised in setting off accumulated losses or increasing capital of the subsidiaries provided that the balance after such conversion is not less than 25% of their registered capital, and is non-distributable other than in liquidation.

(c) Share option reserve

Share option reserve represents the fair value of share options granted to employees and non-employees and is dealt with the accounting policy as set out in Note 2 to the consolidated financial statements.

(d) Exchange reserve

Exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside the PRC and the translation of the Company's financial statements into presentation currency.

(e) Other reserve

Other reserve comprises the following: (i) the difference between the Company's cost of acquisition of subsidiaries and the Company's share of the nominal value of the paid-up capital of the subsidiaries acquired under common control; (ii) the amount arising from transactions with owners in their capacity as equity owners; and (iii) the gain on disposal of a partial interest in a subsidiary in the prior year.

32. ADDITIONAL INFORMATION ON CASH FLOWS

(a) MAJOR NON-CASH TRANSACTIONS

In addition to the information disclosed elsewhere in the consolidated financial statements, the Group had the following major non-cash transactions:

During the year ended 31 December 2024, upon the effect of the Scheme of Arrangement, an aggregate balance of approximately RMB217,725,000 (equivalent to approximately HK\$230,810,000) payable to creditors has been discharged and released in full. As disclosed in Note 26 to the consolidated financial statements, upon the effect of the Scheme of Arrangement, the relevant Admitted Claims amounted to approximately RMB154,658,000 (equivalent to approximately HK\$163,938,000) have been recognised as repayment obligations under the Scheme of Arrangement. As a result, gain on restructuring of the financial liabilities of approximately RMB17,571,000 was recognised in the profit and loss for the year ended 31 December 2024.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2024***32. ADDITIONAL INFORMATION ON CASH FLOWS (Continued)****(b) RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES**

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Finance costs payable (included in other payables and accrued expenses) RMB'000	Corporate bonds payable RMB'000	Bank borrowings RMB'000	Other borrowings RMB'000	Lease liabilities RMB'000	Amount due to related parties RMB'000	Total RMB'000
At 1 January 2023	24,864	82,525	4,500	21,312	374	616	134,191
Financing cash inflows	–	–	7,160	49,635	–	516	57,311
Financing cash outflows	(499)	(1,809)	(4,500)	–	(377)	–	(7,185)
Finance costs for the year	12,930	–	–	–	3	–	12,933
Other non-cash movements	–	(905)	–	–	–	–	(905)
Exchange realignment	(248)	3,662	–	4,390	–	–	7,804
At 31 December 2023 and 1 January 2024	37,047	83,473	7,160	75,337	–	1,132	204,149
Financing cash inflows	–	–	11,380	6,619	–	–	17,999
Financing cash outflows	(377)	–	(7,160)	(8,500)	–	(736)	(16,773)
Finance costs for the year	5,935	–	–	–	–	–	5,935
Other non-cash movements	(40,147)	(86,339)	–	(42,177)	–	–	(168,663)
Exchange realignment	997	2,866	–	1,368	–	–	5,231
At 31 December 2024	3,455	–	11,380	32,647	–	396	47,878

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

33. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of debts and equity balance. In order to maintain or adjust the capital structure, the appropriateness of the going concern basis is assessed after taking into consideration all relevant available information about the future of the Group, including the outcomes of the Group's plans and measures (including any liabilities restructuring plan).

The capital structure of the Group consists of equity attributable to owners of the Company, comprising issued share capital, reserves and/or bank and other borrowings.

The management of the Group reviews the capital structure on a regular basis. As part of this review, the management of the Group considers the cost of capital and the risks associates with the capital and takes appropriate actions through raising debts to adjust the Group's capital structure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The financial assets and financial liabilities of the Group are as follows:

	2024 RMB'000	2023 RMB'000
Financial assets at amortised cost		
Trade and other receivables	29,599	36,761
Amounts due from a related party	36	36
Cash and cash equivalents	15,972	16,511
	45,607	53,308

	2024 RMB'000	2023 RMB'000
Financial liabilities at amortised cost		
Trade and other payables	68,518	117,327
Bank borrowings	11,380	7,160
Amount due to a shareholder	804	804
Amounts due to related parties	396	1,132
Repayment obligations under the Scheme of Arrangement	163,699	—
Corporate bonds payables	—	83,473
Other borrowings	32,647	75,337
	277,444	285,233

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Credit risk

The credit risk of the Group mainly arises from trade and other receivables, amount due from a related party and cash at bank and on hand. The carrying amounts of each financial asset represent the Group's maximum exposure to credit risk in relation to financial assets.

At the end of the reporting period, the Group had a concentration of credit risk as approximately 31.4% (2023: approximately 16.5%) and approximately 62.4% (2023: approximately 49.9%) of the trade receivables was due from the Group's largest trade debtor and the five largest trade debtors, respectively.

The Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverability of these receivables at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information.

(i) Trade receivables

For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for credit-impaired trade debtors and trade debtors with significant balances are assessed for ECL individually, the Group assesses the loss allowance on the remaining debtors based on ECL provision matrix. The expected loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by the management of the Group to ensure relevant information about specific debtors is updated.

The management of the Group assessed that loss allowances for ECL on credit-impaired trade receivables amounted to approximately RMB258,177,000 (2023: approximately RMB261,982,000) were recognised in the consolidated financial statements for certain debtors that are in financial difficulties and the recoverability of such receivables cannot be assured beyond reasonable doubt. In addition, in the view of the management of the Group, the loss allowances, based on ECL provision matrix approach, for the remaining trade receivables amounted to approximately RMB34,000 (2023: approximately RMB30,000) is considered immaterial and therefore, no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2024***34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)****(a) Credit risk (Continued)****(i) Trade receivables (Continued)**

When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against the same line item.

The loss allowance for trade receivables based on ECL provision matrix was determined as follows:

	Receivables aged		Total
	0-3 months	Over 3 months	
31 December 2024			
Expected loss rate	0.1%	0.2%	
Gross carrying amount of (RMB'000)	18,682	7,454	26,136
Expected loss allowance (RMB'000)	19	15	34
31 December 2023			
Expected loss rate	0.1%	0.2%	
Gross carrying amount of (RMB'000)	23,355	3,651	27,006
Expected loss allowance (RMB'000)	23	7	30

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Credit risk (Continued)

(ii) Other receivables and amounts due from a related party

The Group uses four categories for these receivables which reflect their credit risk and how the loss allowance is determined for each of those categories. These internal credit risk ratings are aligned to external credit ratings.

A summary of the assumptions underpinning the Group's ECL model is as follows:

Category	Group's definition of categories	Basis for recognition of ECL
Performing	Debtors have a low risk of default	12 months ECL. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime
Underperforming	Receivables for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are 30 days past due	Lifetime ECL
Non-performing	Interest and/or principal repayments are 60 days past due	Lifetime ECL
Write-off	Interest and/or principal repayments are 120 days past due and there is no reasonable expectation of recovery	Asset is written off

The management of the Group is ongoing monitoring results of the related debtors, the management of the Group is of the view that the loss allowance for ECL on other receivables by considering the settlement records, historical loss rates and available forward-looking information.

The management of the Group assessed that certain other receivables at 31 December 2024 are regarded non-performing for the year amounted to approximately RMB55,651,000 (2023: approximately RMB52,777,000) have been made for those other receivables. At 31 December 2024, certain non-performing other receivables were written off for the year amounted to approximately RMB2,125,000 (2023: Nil) due to uncollectible. Save as aforementioned, the Group's internal credit rating of other receivables and amount due from a related party was performing. The Group has assessed that the ECL for the remaining other receivables is immaterial under 12-months ECL. Thus, no loss allowance for these receivables was recognised for the years ended 31 December 2024 and 2023.

(iii) Cash at bank

The management of the Group considers the credit risk in respect of cash and cash equivalents is minimal because the counter parties are authorised financial institutions with high credit ratings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the directors of the Company to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The undiscounted contractual maturity liabilities profile of the Group's financial liabilities at the end of the reporting period, based on contractual undiscounted payments, is categorised below:

	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but Less than 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2024					
Trade and other payables	65,222	3,144	152	68,518	68,518
Bank borrowings	11,618	-	-	11,618	11,380
Amount due to a shareholder	804	-	-	804	804
Amounts due to related parties	396	-	-	396	396
Repayment obligations under the Scheme of Arrangement	6,894	9,433	201,398	217,725	163,699
Other borrowings	3,969	30,362	3,178	37,509	32,647
	88,903	42,939	204,728	336,570	277,444
At 31 December 2023					
Trade and other payables	117,327	-	-	117,327	117,327
Bank borrowings	7,160	-	-	7,160	7,160
Amount due to a shareholder	804	-	-	804	804
Amounts due to related parties	1,132	-	-	1,132	1,132
Corporate bonds payable	83,473	-	-	83,473	83,473
Other borrowings	24,418	62,673	-	87,091	75,337
	234,314	62,673	-	296,987	285,233

(c) Fair value measurement

The directors of the Company consider that the carrying amounts of the Group's financial instruments carried at amortised cost at 31 December 2024 and 2023 are not materially different from their fair values at those dates, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

35. MATERIAL RELATED PARTY TRANSACTIONS

In addition to those disclosed elsewhere in these consolidated financial statements, the Group had the following transactions and balances with the related parties:

(a) Key management personnel remuneration

Remuneration of key management personnel of the Group is as follows:

	2024 RMB'000	2023 RMB'000
Salaries, allowance, discretionary bonus and other benefits in kinds	376	432
Retirement benefits scheme contributions	116	18
	492	450

The above remuneration is included in staff costs (Note 7).

(b) Balances with related parties

	Notes	2024 RMB'000	2023 RMB'000
Balance with related parties			
Amount due from a related party, controlled by the controlling shareholder	(i), (ii)	36	36
Amounts due to the directors of the subsidiaries	(i)	(396)	(1,132)
Amount due to the controlling shareholder	(i)	(804)	(804)

Notes:

- (i) The balances with these related parties are unsecured, interest free and repayable on demand.
- (ii) The maximum balances due from a related party during the two years ended 31 December 2024 and 2023 are as follows:

	Maximum balance outstanding during the year ended 31 December	
	2024 RMB'000	2023 RMB'000
Amount due from a related party	36	36

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2024***36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY**

	Notes	2024 RMB'000	2023 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	37	1,016	1,006
CURRENT ASSETS			
Amounts due from subsidiaries	36(b)	95,858	92,715
Amounts due from a related party	35(b)	36	36
Other receivables		42	–
Prepayments and other deposits paid	26	7,547	7,298
Cash and cash equivalents		–	27
		103,483	100,076
CURRENT LIABILITIES			
Other payables and accruals		6,369	46,633
Corporate bonds payable	24	–	83,473
Amount due to a shareholder		137	137
Amount due to subsidiaries	36(b)	14,120	12,875
Repayment obligations under the Scheme of Arrangement	26	6,894	–
Other borrowings		–	23,729
		27,520	166,847
NET CURRENT ASSETS (LIABILITIES)		75,963	(66,771)
TOTAL ASSETS LESS CURRENT LIABILITIES		76,979	(66,765)
NON-CURRENT LIABILITIES			
Repayment obligations under the Scheme of Arrangement	26	156,805	–
Other borrowings		2,447	16,602
		159,252	16,602
NET LIABILITIES		(82,273)	(82,367)
CAPITAL AND RESERVES			
Share capital	29	1,216	1,216
Reserves (Note)		(83,489)	(83,583)
NET DEFICIT		(82,273)	(82,367)

The statement of financial position was approved and authorised for issue by the board of directors on 30 April 2025 and is signed on its behalf by:

Yuan Hongbing
Director

Li Yan
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2024***36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)**

36(a) Movements in the reserves of the Company are as follows:

	Share premium RMB'000 (Note 31(a))	Share option reserve RMB'000 (Note 31(c))	Exchange reserve RMB'000 (Note 31(d))	Other reserve RMB'000 (Note 31(e))	Accumulated losses RMB'000	Total RMB'000
At 1 January 2023	691,882	11,456	26,362	(74,753)	(725,612)	(70,665)
Loss for the year	-	-	-	-	(22,945)	(22,945)
Other comprehensive income Item that will not be reclassified to profit or loss: Exchange differences on translation of the Company's financial statements to presentation currency	-	-	10,027	-	-	10,027
Total comprehensive income (loss) for the year	-	-	10,027	-	(22,945)	(12,918)
At 31 December 2023	691,882	11,456	36,389	(74,753)	(748,557)	(83,583)
1 January 2024	691,882	11,456	36,389	(74,753)	(748,557)	(83,583)
Profit for the year	-	-	-	-	2,873	2,873
Other comprehensive loss Item that will not be reclassified to profit or loss: Exchange differences on translation of the Company's financial statements to presentation currency	-	-	(2,779)	-	-	(2,779)
Total comprehensive income (loss) for the year	-	-	(2,779)	-	2,873	94
At 31 December 2024	691,882	11,456	33,610	(74,753)	(745,684)	(83,489)

36(b) The amounts due from (to) subsidiaries are unsecured, interest-free and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

37. SUBSIDIARIES

Details of the subsidiaries at the end of the reporting period are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued and Paid-up capital	Attributable equity interest held by the Company		Principal activities
			2024	2023	
Pa Shun Pharmaceutical Company Limited	The BVI/Hong Kong	US\$50,000	100%	100%	Investment holding
Toyot Pa Shun Medicine Factory Company Limited (東洋百信製藥廠有限公司)	Hong Kong/Hong Kong	HK\$10,000,000	100%	100%	Investment holding
Chengdu Toyot Pa Shun Pharmacy Co., Ltd. 成都東洋百信製藥廠有限公司 (note a and b)	The PRC/The PRC	RMB164,570,000	100%	100%	Manufacturing and sale of pharmaceutical products in the PRC
Chengdu Kexun Pharmaceutical Co., Ltd. 成都科訊製藥廠有限公司 (note a and c)	The PRC/The PRC	RMB170,000,000	100%	100%	Distribution of pharmaceutical products in the PRC
Chengdu Keyi Biotechnology Co., Ltd. 成都科一生物科技有限公司 (note a and c)	The PRC/The PRC	RMB2,000,000	100%	100%	Not yet commenced business
Ready Gain Limited 宏願環球有限公司	The BVI	US\$50,000	100%	100%	Investment holding
Big Wish Global Limited 盈達有限公司	The BVI	US\$50,000	100%	100%	Investment holding
Bisan Parkwell Consultants Limited 百勝百惠顧問有限公司	Hong Kong/Hong Kong	HK\$10,000	100%	100%	Investment holding
Parkwell Services Consultants Limited 百惠服務顧問有限公司	Hong Kong/Hong Kong	HK\$10,000	100%	100%	Investment holding

Notes:

- (a) The English translations of the names of the Company's subsidiaries which were registered and incorporated in the PRC are for reference only and the official names of these entities are in Chinese.
- (b) This entity was established in the PRC in the form of wholly-foreign-owned enterprise.
- (c) These entities were established in the PRC as PRC domestic-invested companies.
- (d) None of the subsidiaries had issued any debt securities at the end of the year or at any time during the year under review.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

38. IMMEDIATE AND ULTIMATE HOLDING COMPANY AND ULTIMATE CONTROLLING PARTY

In the opinion of the directors of the Company, the Company's ultimate and immediate holding company is Praise Treasure Limited which was incorporated in the BVI and the ultimate controlling shareholder is Mr. Chen Yenfei. As at the date of approval of the consolidated financial statements, 753,040,000 shares, representing approximately 51.05% of the issued share capital of the Company, were pledged by Praise Treasure Limited in favour of an original chargee whose rights have been assigned to Zhongtai International Asset Management (Singapore) Pte. Limited (for the account and on behalf of Win Win Stable No.3 Fund SP).

39. CONTINGENT LIABILITIES

At 31 December 2024 and 2023, there were the following legal claims against the Group:

- (a) A petition (the "Petition 2023") was filed on 6 March 2023 by Mr. Zhang Min ("Mr. Zhang") against the Company in the Court of First Instance (the "First Instance Court") of Hong Kong for an order that the Company be wound up by the First Instance Court. The Petition 2023 was filed against the Company for the Company's failure to settle the principal sum and interest payment in the total amount of approximately HK\$4,730,000 in respect of the bond issued to Mr. Zhang by the Company. The Petition 2023 was dismissed by the First Instance Court on 28 June 2023, details of which are set out in the announcement of the Company dated 9 March 2023, 10 May 2023 and 28 June 2023.
- (b) A petition (the "Petition 2022") was filed on 30 May 2022 by Mr. Wu Yuehua ("Mr. Wu") against the Company in the High Court of the Hong (the "High Court") for an order that the Company be wound up by the High Court. The Petition 2022 was filed against the Company for the Company's failure to settle the principal sum and interest payment with total amount of HK\$2,390,000 in respect of the bond issued to Mr. Wu by the Company.

On 6 March 2023, the Petition 2022 was heard at the High Court before a judge, the Petition 2022 filed by Mr. Wu was struck out and the supporting creditor, Opera Enterprise Limited ("Opera Enterprise"), was granted to substitute Mr. Wu. An amended petition (the "Amended Petition") was filed by Opera Enterprise against the Company for the Company's failure to settle the principal sum and interest payment with total amount of approximately HK\$842,000 in respect of the bond issued to Opera Enterprise by the Company.

On 24 July 2023, the Amended Petition was heard at the High Court before a judge, the Amended Petition filed by Mr. Wu was struck out and the supporting creditor, Mr. Zhu Shunyun ("Mr. Zhu") was granted to substitute the petition (the "Re- Re-Amended Petition") remains subsisting. The Re-Re-Amended Petition was filed by Mr. Zhu against the Company for the Company's failure to settle the principal sum and interest payment with total amount of approximately HK\$2,573,000 in respect of the bond issued to Mr. Zhu by the Company. Mr. Zhu of the Re-Re-Amended Petition has signed a consent summons on 9 November 2023, pursuant to which the petitioner has agreed the Re-Re- Amended Petition be dismissed. Order has been pronounced by the High Court on 20 November 2023 that the Re-Re-Amended Petition be dismissed.

Details regarding the aforementioned legal case are set out in the announcements of the Company dated 31 May 2022, 10 August 2022, 28 September 2022, 16 January 2023, 6 March 2023, 24 April 2023, 15 May 2023, 28 June 2023, 25 July 2023 and 22 November 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2024

39. CONTINGENT LIABILITIES *(Continued)*

- (c) In February 2025, the Group received a notice from the PRC district court stating that a third party (the "Plaintiff") in the PRC has initiated legal action against a subsidiary of the Group in the PRC, Chengdu Yiming and its controlling shareholder by claiming the allegedly due and unpaid balance of construction design contract which signed by the service provider (who transferred its claims under the construction design contract to the Plaintiff) and Chengdu Yiming. In respect of the aforesaid due and unpaid balance of service fee, approximately RMB4,656,000. After considering the independent legal opinion, the management of the Group is of the view that the aforesaid due and unpaid balance against a subsidiary of the Group is remoted.